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# FINANCIAL TIMES

Europe's Business Newspaper

FRIDAY DECEMBER 30 1994

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## Fininvest set to sell supermarkets to Benetton alliance

Fininvest, Italy's second largest private business group, owned by outgoing prime minister Silvio Berlusconi, is due to announce today a £560m (\$876m) sale of Euronero supermarket chain, part of its stores and retailing division, to a consortium of the Benetton clothing group and Luxottica, the spectacles producer. Page 16; Italian parties take hard line in government talks, Page 2

**Weak dollar hits European markets:** European financial markets were depressed by the combination of a weaker dollar and US government bonds. UK government bond prices fell by nearly two percentage points and German bonds were also lower. Spanish markets hit again, Page 14; London stocks, Page 28; Currencies, Page 24; London stocks, Page 29

### Copper reaches six-year high

**Copper**  
LME 3-grade 3-month  
000/tonne  
20

Copper prices, already boosted by strong industrial demand, traded at their highest for nearly six years in London as speculative buyers took advantage of thin end-of-year business to push the market above \$3,000 a tonne. Prices touched \$3,022, 2 per cent up from pre-Christmas levels and the highest since April 1989, before closing at \$3,012, up \$10. Demand is forecast to grow by more than 3 per cent next year, but copper stocks should fall because no new mine or refinery output will be on stream until the second half of 1995. Commodities, Page 22

**54 die in Turkish air crash:** Fifty-four people died and 22 were injured when a Turkish Airlines Boeing 737 carrying mainly military personnel crashed into a mountain in heavy snow while trying to land at Van in eastern Turkey after a flight from Ankara.

**Israel's economy beats OECD nations:** Israel's economy outperformed all 24 Organisation for Economic Co-operation and Development nations in 1994, with a growth of 6.8 per cent in gross domestic product, the country's central bureau of statistics said. Page 5

**China's oil output set to pick up:** Crude oil and natural gas output from China's onshore oil fields will fall short of projections this year but rebound slightly in 1995, the country's top oil producer said. Page 3; China's foreign minister to visit UK, Page 3

**'Confession' complicates pilot's release:** An ambiguous "confession" signed by a US army helicopter pilot captured by North Korea could complicate efforts to secure his release, increasing prospects that Congress will try to block the recent US nuclear accord with North Korea. Page 3

**Banesto to sell stake in Portuguese bank:** Troubled Spanish bank Banco Español de Crédito is to sell its 50 per cent holding in Banco Totta e Aceros de Portugal to Portuguese entrepreneur António Champalimau. Page 15

**Hochtief bid to raise holding blocked:** Hochtief, one of Germany's largest construction companies, will not be allowed to increase its stake in Philipp Holzmann's main domestic competitor, the federal cartel office said. Page 15

**Second nuclear deal cancelled:** A second German nuclear power station has decided not to send fuel to British Nuclear Fuels' Thorpe reprocessing plant at Sellafield in north-west England and further cancellations may be on the way. Page 14

**First Choice revamps alliance:** First Choice Holidays of the UK abandoned two of the three strands of its strategic alliance with Germany's Westdeutsche Landesbank, which controls a 21 per cent stake in it. Page 16

**Go-ahead for Cariplo's role bid:** The Bank of Italy has given the go-ahead for the L3.291bn (\$2bn) bid for Bologna-based commercial bank Credito Romagnolo, launched by a consortium headed by Cariplo, Italy's largest savings bank. Page 16

**Asian economies climb ladder:** Hong Kong and Singapore have joined Japan in the top 10 of the world's richest economies in the latest World Bank listing. Page 3

**US in driving seat:** The US has overtaken Japan this year to become the world's top motor vehicle-producing nation for the first time since 1979, the US weekly Automotive News reports. Page 14

**FT STOCK MARKET INDICES**

	STERLING
FTSE 100 Yield	3,065.5 -0.2
FTSE Eurotrack 100	-1,327.46 -19.43
Nikkei All Share	1,521.15 -0.74
New York Stock Exchange	7,752.98 +67.45
Dow Jones Ind Ave	3,033.77 -5.72
S&P Composite	480.44 -0.42
FT Index	710.75 -0.56

**US LUNCHTIME RATES**

	DOLLAR
Federal Funds Yld	5.1%
3-m Treasury Bills Yld	5.534%
Long Bond	9%
Yield	7.342%

**LONDON MONEY**

	STERLING
3-m Interbank	6.1% (6.1%)
Life long gilt future	Mar 1995 (Mar 1994)

**NORTH SEA OIL (Argus)**

	STERLING
Brent 15-day Feb	\$16.54 -16.44

**Gold**

New York Comex Feb

London

Yield

Yield

Austria

Belgium

Denmark

Finland

France

Germany

Greece

Hong Kong

Ireland

Italy

Japan

Korea

Luxembourg

Netherlands

Norway

Portugal

Spain

Sweden

Switzerland

UK

USA

Yugoslavia

Yuan

Zimbabwe

Security chiefs say Chechen capital must be taken by January 15

## Russians prepare Grozny push

By John Lloyd in Moscow

The Russian army is grouping for a final push into Grozny, the Chechen capital, in an effort to end a war that is straining the fabric of Russian society and threatening the stability of the administration.

General Pavel Grachev, the Russian defence minister, told the Interfax news agency yesterday that Russian forces would "push deep into the city to seize weapons and liquidate armed formations".

Commenting on the apparent contradiction between that intention and the statement by Mr Boris Yeltsin, the Russian president, that the city would not be stormed, Gen Grachev said it would not be a "storming in the classic sense, using all means at our disposal and launching an

initial bombardment of shells and rockets for several hours".

According to the Moscow daily newspaper Nezavisimaya Gazeta, which printed what it said was the text of a report by Gen Grachev to the security council - the state body that oversees all security matters - on Monday, the council has agreed to take Grozny no later than January 15.

It was clear that the Russian military, in spite of continued stiff resistance, has advanced steadily and has largely blockaded the city - although a fight for the town of Argun, which commands the road from Grozny to the east and is still in Chechen hands, was raging fiercely.

Interfax said that General Dzhokhar Dudayev, the Chechen president, had called for talks without preconditions - possibly a sign of growing desperation,

backing from Mr Vladimir Zhirinovsky of the neo-nationalist Liberal Democratic party.

Mr Zhirinovsky supplemented the president's call to the army to finish the job in Chechnya with an appeal of his own: "The motherland has called you at a difficult hour to fulfil your noble duty. The time of serious trial has come for Russia... as well as bandits, journalists and politicians who are shooting you [the troops] in the back."

It was also taken up by a spokesman for the French foreign ministry, in the sharpest comment yet from a major non-Moscow foreign state on the war. The spokesman said that "contrary to what has been announced by Chechen leaders, at the same time, the government press service accused journalists of putting soldiers' lives at risk".

Mrs Elena Bonner, widow of

the physicist and human rights

campaigner Andrei Sakharov, resigned from the president's human rights commission saying that the conflict "insists a return to totalitarianism". Mr Emil Pain, an adviser to Mr Yeltsin who has been the most outspoken of the liberal-inclined aides, deplored the gap between the president's promise to end the bombing and the attacks that took place yesterday and the previous night.

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Threat to aid deal, Page 2

## Mexican peso lifts on hopes for rescue of economy

By Ted Barnes in Mexico City

The Mexican peso stabilised yesterday as investors were reassured by reports that an emergency economic plan would receive backing from leading industrial countries and international financial institutions.

President Ernesto Zedillo was expected to announce details of the plan late yesterday, when there were widespread reports on local financial markets that Mr Jaime Serra Puche, the finance minister, would be replaced.

Mexican reports suggested that the international backing could range from approval from the Group of Seven leading industrial nations of Mr Zedillo's proposals to a package of up to \$10bn to ease fears over repayment obligations in the next few months.

US President Bill Clinton said he backed reform efforts in Mexico and was looking into "what we can do" to stabilise the peso. "It is something that I take seriously and we are looking at it very seriously. We're talking to the Mexican government about what we can do."

At midday, the spot rate for the peso was 4.925 to the US dollar, slightly up from Wednesday's close of 4.75, while the Mexican stock market was up 1.53 per cent. Mexican equities in New York continued a slow climb that began on Wednesday.

A delegation from the International Monetary Fund arrived in Mexico City late on Wednesday night and was reported to have met Mr Zedillo and Mr Serra, who has been criticised for poor handling of the peso crisis over the past week. Mr Serra's office indicated that his future was in serious doubt. "It is obvious that the president needs someone else to implement the plan," said a senior aide to Mr Serra.

Officials said the IMF mission was reviewing the economic stabilisation plan and might act as an intermediary between the Mexican government and international agencies. The IMF itself was unlikely to provide funds.

Commercial bankers say the Mexican government would need

Continued on Page 14

Bruses after crisis, Page 5

## Airbus wins \$1.8bn order in US as market picks up

By John Riddick in Paris and Andrew Baxter in London

Airbus Industrie, the European aerospace consortium, has won orders and options for 40 aircraft worth an estimated \$1.8bn from International Lease Finance Corporation, the California-based aircraft leasing group.

The order, announced yesterday, is the biggest received by Airbus this year, and reflects the improvement in the international aircraft market after the sharp recession of the past few years.

The restructuring will yield annual savings of at least \$200m by the end of 1995. The company will continue to add resources in its growth segments, particularly in the services area where more than 2,000 new jobs have been created this year.

Mr James Unruh, Airbus chairman and chief executive, said: "The repositioning will focus on our European business, our worldwide equipment maintenance business and on product areas where... we have significantly improved our efficiency."

In March, Unruh appointed Mr Malcolm Coster, a former Coopers & Lybrand consultant, as head of its European operations to focus the business on growth opportunities.

Airbus returned to profitability in 1992 after three years of heavy losses. The company has been attempting to expand its information systems business to compensate for declining mainframe sales.

Mr Unruh said that in the second half of this year the company had achieved revenue growth in information services and in the sale of departmental computers and desktop systems. "However, a slowing in the traditional hardware sales and maintenance business and profit pressures in our European operations has led to a disappointing financial performance in 1994," he said.

Information management services represent 25 per cent of Unruh's total revenue, Mr Unruh said, making that its largest business sector. Sales of departmental and desktop computers are also increasing. "Our plans call for these growth

taking an option for a further 10. The firm orders include eight A319s, 13 A320s and nine A321s. The options comprise three A319s, three A321s and four A320s.

All the aircraft have single aisles and are generally used for short and medium-haul flights. Deliveries will run from February 1996 until the year 2000.

Mr Jean Pierson, managing director of Airbus, said the deal reflected the confidence of ILFC in the single-aisle aircraft produced by Airbus.

ILFC, part of American International Group, the US insurance and financial services group, is the world's largest aircraft leasing company after GFA, the Irish aircraft leasing company rescued from collapse last year.

ILFC is the single largest customer of Airbus, which groups Aérospatiale of France, Deutsche Aerospace (Dasa) of Germany, British Aerospace and Casa de Spain. Including yesterday's deal, it has 115 Airbus aircraft on order, while 40 others have already been delivered.

In recent years ILFC has also ordered about 300 Boeing aircraft, of which about 180 are still to be delivered. No ILFC officials were available for comment yesterday, but it is believed within the industry that ILFC may soon place another order with Boeing.

ATR, a French-Italian joint venture, is to sell five turboprop aircraft, worth an estimated \$60m.

## The Busiest Stations in the City.

**MORSE**

**SUN SPARCstations**

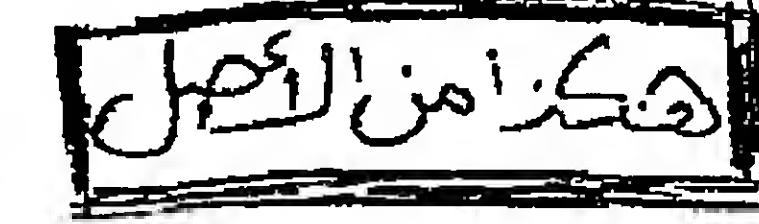
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Morse Computers. 081-876 0404.



## AMERICA

**Dow retreats as year-end rally falters**

## Wall Street

Stocks深ened losses at mid-day as Wall Street's year-end rally stumbled, *agencies report*.

The Dow Jones Industrial Average was down 21.20 at 3,840.49 with declines leading advancing issues by 12 to seven.

The more broadly based Standard & Poor's 500 was off 2.04 at 460.45, the American Stock Exchange composite lost 2.45 to 401.57.

US Treasuries were mixed, with the long bond unchanged to yield 7.76 per cent.

Trading volume on the NYSE was 106m shares.

AT & T, off 54¢ at \$51.9, announced that it was requesting price increases of 3.8 per cent for calling-card and operator-handled calls, 1.3 per cent for international direct dial calls, 5.0 per cent for USADirect Service calls, and an average of 2.4 per cent in the monthly fees for certain domestic savings plans.

AT & T said that the price changes, which are expected to become effective on January 10, 1995, will produce about \$26m in revenues.

Toyt R Us, down 33¢ at \$30.4, declined to discuss its Christmas sales or comment on a lowering of the 1994 earnings estimate by a US broker.

Home Holdings plan to cease

**Mexican equities climb**

Mexican stocks rose in early trade despite a rise in domestic interest rates as investors reacted positively to news that peace talks between the government and rebels in the southern state of Chiapas could be re-opened.

The IPC index rose 21.98 to 2,238.58.

Rebel leaders said in a statement that they recognised the interior ministry as the government's representative in contacts for peace talks.

But some traders said the market would remain volatile ahead of President Ernesto Zedillo's announcement next Monday of measures to tackle the currency crisis.

• São Paulo rose 3 per cent in moderate midday trade as

underwriting and transfer some business to Zurich Insurance Group of Switzerland, announced on Tuesday, left the shares down 54¢ at \$51.9.

Mexican and other Latin American ADRs, which had been depressed in the wake of the devaluation of the Mexican peso, bounced back and provided the stock market with one of its few pockets of strength.

Telefonica de Argentina was up 1.1% at \$50.1, Telecom Argentina rose 1.1% to \$48. Telmax was up 1.1% at \$33.6 and Brazil Fund rose 1.1% to \$31.7.

## Canada

Toronto stocks gave up some earlier gains, but stayed on positive ground in quiet post-holiday action.

The market is likely to remain lacklustre for the rest of the week as players close books for the year-end, traders said.

The TSX 300 composite index added 4.44 at 1,978.84 in volume of 18.2m shares worth C\$204.1m.

The upward impetus from a buoyant precious metals sector was blunted by weakness in energy and base metals.

The precious metals group rose 18.85%, or 1.84 per cent, to 9,348.31 as gold prices stayed flat. Franco-Nevada Mining rose C\$1 to C\$6.14 while Placer Dome added C\$0.14 to C\$2.24.

**Arbitrage unwinding erodes early gains in Nikkei**

## Tokyo

Arbitrage unwinding and position covering eroded earlier gains posted on buying for the first day of January settlements, and the Nikkei index finally closed lower, writes *Emiko Terazono in Tokyo*.

The Nikkei 225 average closed down 45.83 to 19,665.53 after a low of 19,599.40 and a high of 19,813.81.

A rise in the futures market in the morning prompted arbitrage buying and purchases by traders, but gains were eroded by afternoon selling.

Volume was 280m shares against 235.5m. Activity was led by dealers and arbitrageurs, with individual investors trading in speculative issues.

The Topix index of all first section stocks fell 3.26 to 1,851.78, while the Nikkei 200 index lost 0.68 to 245.47. Advances led declines by 473 to 474, with 210 issues remaining unchanged.

In London the ISE/Nikkei 50 index fell 0.37 to 1,200.16.

Speculative issues were among the most actively traded. Sakai Overex, a synthetic fabric manufacturer, fell Y10 to Y750 on profit taking, while Minoda added Y14 to Y553.

Nippon Soda, a chemical maker, rose Y26 to Y860. Investors were encouraged by the company's contract with a US drug maker to supply AIDS-related materials.

Konica, the photo film maker, closed up Y13 at Y818. The company's 20 per cent revenue growth of its new disposable cameras has supported its recent price rise.

Higher ferro-nickel prices boosted Pacific Metals, the largest ferro-nickel maker, in the morning session. The stock however, closed unchanged at Y533.

Other mining and metal

## FT-SE Actuaries Share Indices

Dec 28	Hourly changes	THE EUROPEAN SERIES									
		Open	10.30	11.00	12.00	13.00	14.00	15.00	16.00	17.00	18.00
FT-SE Eurotrack 100	1330.35	1332.50	1351.19	1346.90	1348.57	1348.51	1347.87	1348.65	1348.65	1348.65	1348.65
FT-SE Eurotrack 200	1411.55	1412.15	1411.55	1408.00	1408.07	1407.20	1408.76	1408.76	1408.76	1408.76	1408.76
Dec 29											
FT-SE Eurotrack 100	1348.48	1347.87	1348.23	1348.23	1348.23	1348.23	1348.23	1348.23	1348.23	1348.23	1348.23
FT-SE Eurotrack 200	1404.73	1403.73	1395.60	1395.10	1395.10	1395.10	1395.10	1395.10	1395.10	1395.10	1395.10

Index in 1994.

FRANKFURT pushed higher, the DAX index closing the official session up 2.86 to 2,109.01, having moved in a narrow range of between 2,107.55 and 2,113.85.

But the market turned sour later, with the DAX indicated index falling to 2,097.34. Turnover was DM3.5bn.

Banks were stronger: Deutsche Bank gained DM2.60 to DM726.50, Commerzbank up DM2.00 to DM323.50, and Dresdner Bank putting on DM1.70 to DM406.70. The chemical sector also gained narrowly: Bayer rose DM1.80 to DM361.60, BASF up 20 pence to DM218.00, and Hoechst DM2.00 to DM332.00.

AMSTERDAM gave up most of yesterday's gains, with the AEX index down 3.15 at 414.81, after reaching a session high of 418.94.

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ZURICH ended lower in a quiet session. The SMI index lost 1.73 to 2,658.2.

Holderbank was affected by what brokers described as UK selling on worries about its exposure in Mexico, the bears falling SF24 to SF1,006

and the registered SF28 to SF1,206.

ZURICH saw the Aktiengeneralen general index slip 10.9 to 1,463.1.

ERICSSON, down SKR6 to SKR11, said that it had won an order for the expansion of the mobile telephone network in Jiangsu province, China.

MILAN was pulled lower by profit-taking, leaving the Comit index down 3.55 at 584.09.

Smith New Court, issuing a long-term buy note on Fiat, off L13.20 to L13.90, said that it had reached a price target of between L13.90 and L14.10, indicating a 20 to 25 per cent upside from current levels.

Positive factors for the car group included the strong advantage it derived from the devaluation of the lira, its low industrial debt/equity ratio,

the prospect of new models and new markets boosting sales further, and the potential disposal of some assets providing an additional boost to earnings and cash flow.

Rodamec fell FI 1.30 to FI 47.20 after the group said that it might drop its optional tax-free dividend next year.

PARIS was affected by the activity around tax-related transactions - investors were exchanging shares with full voting rights for shares with limited voting rights in order to be able to write off their losses while retaining their stakes in the companies.

Kvaerner A shares added NKr14 to NKr15, while its free shares closed NKr6 up to NKr17 after it announced that its German shipyard had won a NKr650m contract to build two container vessels.

Written and edited by John PFE

## EUROPE

**Continent takes its cue from early US weakness**

Weakness on Wall Street lay behind the downturn in some markets during the afternoon session.

Reviewing possible developments among European equity markets during the first quarter of 1995, Hoare Govett commented that it expected a recovery, "but returns are unlikely to be spectacular, despite this year's falls".

The broker overweighted France and the Netherlands on a six-month view. "Paris has underperformed consistently for the past two years [and] although liquidity and politics argue against a near-term overweight position, we feel that these factors are offset by the relatively more defensive nature of the market, in view of the risk of negative surprises in Europe," it said.

Hoare Govett said that the market was broadly skewed towards sectors which it favoured, namely consumer, services and financials.

Sweden and Italy were put on the underweight list, partly as a consequence of having outperformed the European

market in 1994.

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Written and edited by John PFE

Fininvest set supermarket alliance

to open 100 stores in Italy

in 1995

and 100 in Spain

in 1996

and 100 in France

in 1997

and 100 in Germany

in 1998

and 100 in the UK

in 1999

and 100 in Italy

# China's foreign minister to visit UK

By Simon Holberton in Hong Kong

Mr Qian Qichen, China's foreign minister, will visit the UK next year in what British officials hope, but do not expect, will mark an improvement in relations.

News of Mr Qian's proposed visit, which is not expected until the late spring or summer, came amid expectations of another Sino-British row - this time over a multi-billion-dollar plan to replace the sewerage systems in Hong Kong, which the local government says is urgently needed.

China has requested that the Hong Kong government defer plans to start a big part of the HK\$20bn (£1.67bn) project pending discussions about its environmental consequences.

The government claims that as stage one of the project - a treatment plant on Stonecutter's Island - is self-contained and can be completed before Hong Kong's handover to China in 1997 it does not need Beijing's approval. It may let contracts this week for construction of the treatment plant.

Mr Qian confirmed his plans to visit the UK to a group of local Hong Kong politicians visiting the Chinese capital. In a phrase which underlined the frostiness of bilateral relations he said that



Qian Qichen: China has 'no objection' to visit by Heseltine

China had "no objection" to a proposed visit by Mr Michael Heseltine, trade and industry secretary.

Mr Heseltine is expected to go China in the spring. Last year he was forced to withdraw from a trade mission to China when, in the middle of a row, Beijing informed London that he was not welcome.

This is in spite of the very poor atmos-

phere surrounding Sino-British relations over Hong Kong. At a meeting earlier this month in London, British and Chinese negotiators made little headway on important issues relating to Hong Kong's legal system and the development of the colony's container port.

On the port, the Hong Kong government appears to be stymied. A proposal from Beijing this week that the colonial government build the port extension itself and leave to the post-1997 administration the question of its ownership has been rejected.

A far more difficult judgment which the government will have to make in the New Year concerns the colony's court of final appeal. The government says it is committed to establishing the court - which will be Hong Kong's highest - before 1997.

In spite of 1981 agreement with China on the structure of the court, Beijing has been dragging its feet in approving the agreement in legislative form. It has had a copy of a draft bill since May.

In the meantime Hong Kong's legal profession has emerged divided on the government's draft bill. Its representatives in the local parliament have vowed to oppose the government.

## Beijing plans to overhaul bankruptcy law

By a Correspondent in Beijing

China plans to overhaul its eight-year-old bankruptcy law next year to accelerate the streamlining of loss-ridden state companies. According to the New China News Agency, a draft law to be presented to the National People's Congress, the nominal parliament, will tighten provisions of existing legislation, in effect since 1986, and bring it into conformity with market reforms and international practices.

At a session of Chinese legis-

lative leaders which ended yesterday, the standing committee of the People's Congress also called for tighter control by the legislature and the State Council, or cabinet, over the People's Bank of China and its

monetary policy.

Under a draft law that has to be ratified by the legislature next year, the central bank will no longer engage in commercial or policy-related lending and will have to report regularly on money supply, credit balance and other issues.

The People's Bank of China

has been trying to modernise and make the transition from acting as the funding source of a planned economy to being a market-oriented institution.

The legislative committee also cleared a new prison law aimed at curbing China's rising crime in a move that extends legislative supervision and the reach of Mr Qiao Shi, the powerful congress chairman, considered a contender to succeed Mr Deng Xiaoping, the ailing paramount leader.

"The tasks in the coming

year remain very heavy," Mr.

Qiao was quoted as saying in a speech urging other legislative leaders to "promote the sustained, fast and healthy development of the national economy as well as political and social stability of the country".

Despite the proposed changes in bankruptcy legislation, western economists questioned whether the government will carry out its bankruptcy programme while millions of state enterprise employees are without work or relying on subsistence wages.

However, Mr Cao Siyuan, a

bankruptcy consultant and the architect of the proposed legislative changes, predicted the draft law would speed the rate of bankruptcies. Although the government admits that more than 40 per cent of the 72,000 state-owned industrial enterprises are in the red, only about 2,000 have been allowed to go into default under the existing law. For example, Mr Cao said the proposed law would remove government officials from the bankruptcy process by providing for an independent team to assess assets.

The World Bank believes

that GNP per capita figures give a better indication of relative standards of living when converted into "international dollars" at purchasing power parity. It defines PPP as the number of units of a country's currency required to buy the same amount of goods and services in the domestic market as \$1 would buy in the

United States.

Using PPP, Luxembourg

emerges as the world's richest country with an output per head of \$29,510 in international dollars, and 20th among 209 countries measured by GNP per head only. On the traditional measure, UK output per head dropped in 1993 to \$17,570 from \$18,110 in

1992.

The traditional measure makes Switzerland the world's wealthiest nation with a GNP per head of \$36,110. Mozambique is the poorest with a GNP per head of \$80, although this rises to an estimated \$380 in international dollars using the PPP calculation.

The PPP calculations have the effect of lifting GNP per head sharply for most developing countries and former communist states. China, for example, had a GNP per head of \$490 last year but, using PPP, this rises to \$2,120.

In Russia's case the PPP calculation yields a GNP per head of \$3,240 for 1993 against \$2,330 using traditional measures while the World Bank, using PPP, calculates India's GNP per head at \$1,254 last year against \$290 using the normal method.

The PPP method shows that Mexico, which formally joined the ranks of the industrialised countries last year when it became a member of the Paris-based Organisation for Economic Co-operation and Development, is less wealthy than several nations that are still considered developing countries. Mexico's GNP per head was \$7,100 in international dollars in 1993 against \$8,630 for Malaysia and \$8,130 for Venezuela.

*World Bank Atlas, \$7.95. Details from World Bank Marketing Unit, Room T-5054, Washington DC 20433. Fax (202) 675 0572.*

## Pilot's confession may complicate his release from North Korea

By John Burton in Hong Kong

An ambiguous "confession" signed by a US army helicopter pilot captured by North Korea almost two weeks ago could further complicate efforts to secure his release.

Analysts were divided over whether the statement by Chief Warrant Officer Bobby Hall would speed his release or provide Pyongyang with new grounds to detain

him in return for possible concessions from the US.

If his return is delayed further, it is likely to increase prospects that the new Republican-controlled US Congress will try to block implementation of the recent US nuclear accord with North Korea. Under the accord, Pyongyang agreed to dismantle its nuclear programme in return for US diplomatic ties and international economic aid.

Mr Hall admitted that his OH-58 reconnaissance helicopter made an "intrusion deep" into North Korean airspace, adding "this criminal action is inexcusable and unpardonable".

"I only hope, and it is my desire, that the [North] Korean People's Army will leniently forgive me for my illegal intrusion so that I may return to my home and be with my family again," he concluded.

The apology may provide a face-saving

means for his release, while allowing North Korea to exploit the incident for propaganda purposes and justify its downing of the helicopter.

The statement, if it was dictated by

North Korean officials as many believe,

does not offer much support for Pyong-

yang's allegation that the helicopter was

on a spying mission and that its intrusion

was deliberate. Mr Hall's statement said

that his helicopter "deviated" from its

planned flight route within South Korea,

decided to press the affair.

Whether North Korea will try to use the issue to gain concessions from the US is still unclear as it negotiates with a senior US diplomat who has travelled to Pyong-

yang to gain the pilot's release.

But some South Korean government

analysts believe that Mr Hall's statement

that the helicopter was on an "observation

reconnaissance" mission could be

interpreted as espionage if North Korea

incident to support its demand that the US sign a formal treaty ending the 1950-53 Korean war and begin withdrawing its 37,000 troops from South Korea.

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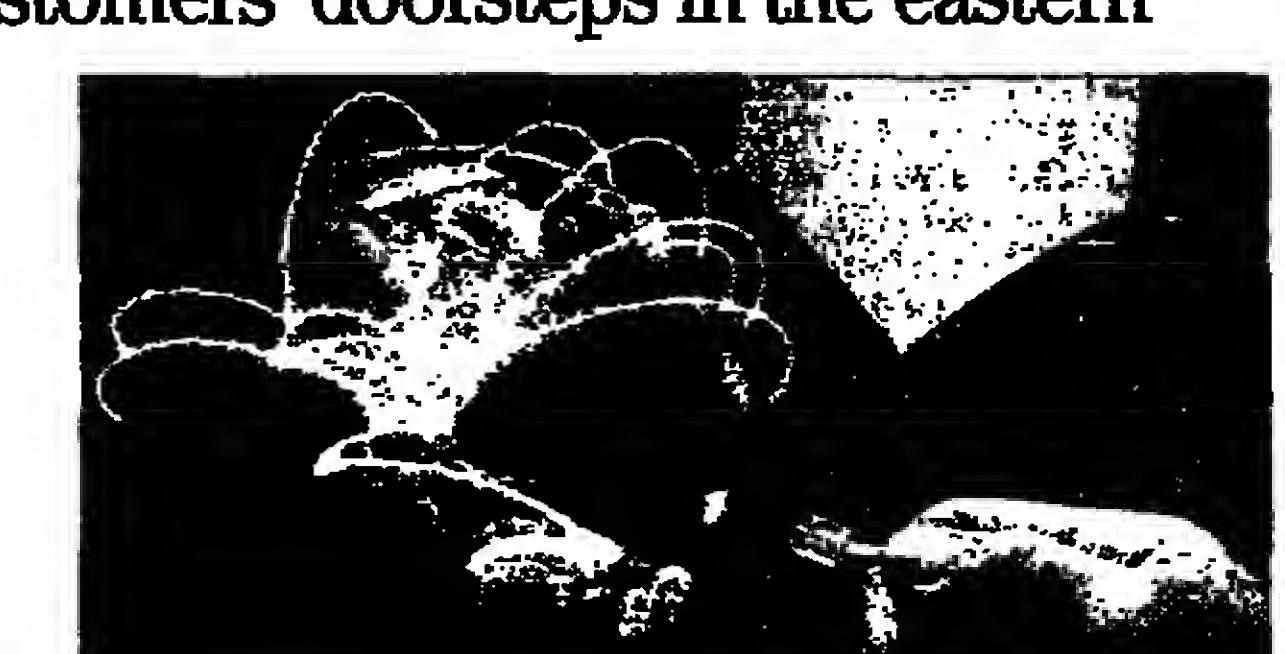
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## NEWS: EUROPE

# OECD struggles to adjust to harder times

Heavier workload and resource constraints are straining the organisation, writes Gillian Tett

**W**hen Mr Jean Claude Paye, secretary-general of the Organisation for Economic Co-operation and Development, returned to his desk last month one of his first tasks was a fax. In a politically tactful move, he sent a message to Mr Donald Johnston, the Canadian recently selected to succeed him, offering congratulations to him on his appointment - and any advice he might need.

In usual circumstances, the move might have seemed unremarkable. But as Mr Paye surveys the scene from his elegant offices in the OECD's Paris headquarters, both his position and the organisation's situation look anything but normal.

Earlier this year the OECD was shaken by a bruising diplomatic row over whether Mr Paye should continue in the post he has held for the past 10 years, or be replaced. The issue was finally resolved by agreeing that Mr Johnston will succeed Mr Paye after 17 months.

The dispute, however, has highlighted new uncertainties about the future of the group, which promotes co-operation among 25 of the world's leading industrial economies. For with the OECD's workload surging, budgetary and political constraints are threatening to leave the organisation hamstrung - and Mr Paye and his successor facing an increasing

ingly difficult task.

"We are not stiffer yet but we are in a difficult position in reconciling this for more work and sufficient resources," Mr Paye says. "One of our concerns is that in some areas we are thinly spread now."

In the short term, Mr Paye's first challenge is to smooth over the diplomatic split between the European and non-European members that was generated by his reappointment.

"It certainly was an unfortunate period, the battle for the secretary generalship," admits Mr Paye, a discreet and dapper French diplomat. "But to some extent I welcome this because it proves that there is a conviction in member countries that the organisation matters."

Indeed, back in his office, he insists that all is business as usual. In his remaining time he plans to press ahead in the two main areas of change that have emerged in recent years: the enlargement of the organisation to include countries such as Poland; and its move into new areas of social policy research, such as the OECD's celebrated recent jobs study. And he shrugs off suggestions that his moves will be hampered by the Americans who opposed his reappointment.

"I don't see the interest the Americans would have in blocking something... if they were to do so

they would provoke retaliation later on," he says, insisting that this would go against the "culture" of the organisation.

But the real question that now hangs over the OECD is whether Mr Paye's cautious "business as usual" approach will be enough to tackle the broader problems it faces.

The OECD started life as an over-

## Pushing through radical reforms is a particularly difficult task

seer of the post-war Marshall Plan, and was established in its present form as a meeting place for governments and source of economic research almost 30 years ago. But rapid changes in the world economy have called this role into question, as groups like the European Union have come to serve as an alternative source of co-operation. Meanwhile, the OECD's claim to promote co-operation in the industrial world appears increasingly anomalous, given that countries like the so-called Asian tigers are not members.

As Mr Paye points out, these problems of geopolitical change also dog other institutions like the Conference on Security and Co-operation in Europe or the Nato Alliance. But the OECD's distinctive culture of polite peer pressure and consensus means that pushing through radical reforms is particularly difficult.

Although Mr Paye believes, for example, that further changes are needed to the OECD's internal structure, this is proving sensitive because its members demand that the organisation should mirror the structure of their governments.

Attempts to fuse some computing, industry and science committees earlier this year were blocked.

Meanwhile, moving funds from lesser known programmes like tourism research to new projects is a boun-

"We have tried to chose some programmes, but it proves very difficult to get unanimous agreement. We almost scuttled the budget discussions one year because one country insisted on maintaining the activities on paper," he says.

One solution, Mr Paye says, might be to end the requirement of unanimity in the budget discussions. But pushing this through may be difficult, not least because some members are already grumbling about the OECD's budget, currently about FFr1.3bn (\$15m).

The UK, for example, recently decided to stop funding the OECD Development Centre, complaining that its budgetary contributions had surged by 40 per cent in the past four years. The OECD insists that the real increase is 23 per cent, with most of this due to new research into east Europe. But Mr Paye admits that Britain's move could prove the tip of an iceberg if the organisation were "unable to adjust and develop to meet its challenges".

With Mr Paye hoping that the four Visegrad countries (Poland, Hungary, the Czech Republic and Slovakia) will join the OECD in 1996, and South Korea already having announced its intention of becoming a member, he insists that the organisa-

"tion still has a future."

Indeed, he argues that the development of such regional trading blocs as the EU and North American Free Trade Agreement means the OECD should now aim to play a vital role as a "meeting point for policy dialogue between those groups."

But the OECD is to achieve this role, it will require a new clarity of vision from both Mr Paye and Mr Johnston. And with the former now planning to meet the latter for exploratory talks next spring, it appears that the two men will have much to discuss - irrespective of the previous diplomatic dispute.



Secretary-general Jean Claude Paye: "Business as usual" approach

## Prospects rise for truce in Bosnia

By Laura Silber in Belgrade

Bosnian Serb and United Nations commanders yesterday adjourned talks on a proposed four-month ceasefire agreement but remained confident the truce would be signed before the deadline on Sunday.

On the political front, Bosnian Serb deputies last night made a cautious endorsement of a peace plan brokered on December 19 by Mr Jimmy Carter, former US president. Bosnian Serb leaders had promised to restart peace talks on the basis of the five-nation Contact Group plan to divide Bosnia roughly in half.

The parliament informs the Contact Group and the international community of the readiness on the part of Republika Srpska to enter peace negotiations on the basis of the agreement with Carter.

The Lukavac statement, issued in the Serb mountain stronghold of Pale, fell far short of accepting the map which would call on Serbs to hand over a third of the 70 per cent of Bosnia they currently control.

Serb leaders still reject the maps, whereas the Muslim-led government had insisted that the proposed division remains the same. But earlier Mr Alija Izetbegovic, President of Bosnia, appeared to soften his position. Speaking in his capacity as leader of Bosnia's main Muslim party, he said: "We think that the resumption of the war is a bigger injustice than an unjust peace."

After meeting Serb military and political leaders in Pale, General Sir Michael Rose, UN commander in Bosnia, said: "There is goodwill on both sides. I hope we are going to get some conclusion by the weekend."

"Today it might be a little too soon [for the signing] because we were not expecting it before January 1 and we still have two days to go."

General Ratko Mladic, the Bosnian Serb commander, added: "I agree with what General Rose has just said. I hope the parties to the conflict will sort details out."

Bosnian Serbs and Muslims recently endorsed a temporary truce in order to gain time to hammer out the details of a four-month cessation of hostilities throughout Bosnia under the agreement brokered by Mr Carter.

Fighting near the northwestern Bihać enclave yesterday raised fears that even the provisional truce would not hold. Serb forces are encircling Bihać. They used tanks, artillery and mortars to push back their Muslim foes in nearby Bosanski Krupa, said UN officials.

The Bosnian government yesterday reiterated warnings that it would refuse to sign the four-month ceasefire in the first quarter, quick IMF support for the programme is central."

## Economy hostage to war, oil and Yeltsin

### John Lloyd on the desperate struggle waged by reformists over three crucial issues

**T**he Russian government's proclaimed aim of stabilising the economy next year - a move seen as indispensable to bringing stability not just to the economy but to politics - now rests on the outcome of a struggle behind the scenes between three critical issues: the war in Chechnya; a system of domestic oil quotas; and the support of President Boris Yeltsin.

The 1995 budget assumes loans from the International Monetary Fund and the World Bank totalling nearly \$15bn, which will account for a third of budget income. But this lending is now in the balance because of a series of massive problems, any one of which might throw such a programme off track.

The cost of the Chechen war is estimated to be running at some \$600,000 a week, and mounting. The final bill, including rebuilding the severely damaged capital, Grozny, and other towns, had been put initially at \$150,000bn but all estimates are now much higher. In addition, the military will demand greatly increased expenditure as the price for their engagement in the war.

A system of domestic oil quotas is now in draft form and would replace the quotas on oil exports which remain in force until January 1. Mr Yevgeny Yastrzhembsky, the pro-reform economics minister, said yesterday that the draft had not yet been signed, but he expected a

decision from Mr Victor Chernomyrdin, the prime minister in the next couple of days.

"Our view in the economics ministry is that fears that ending quotas will lead to a shortage of oil in the domestic market are insufficiently grounded, and that a decision to liberalise is absolutely essential."

Abolition of the quotas is seen by the IMF and the World Bank as vital to the liberalisation of oil prices, which in turn is seen as a necessary condition for economic stabilisation. IMF sources said yesterday that the decision was a crucial test of the government's good intentions.

The position of the president on these issues is presently unknown. Mr Yeltsin has formally backed the budget strategy, but has in the past insisted on his own freedom of action to issue decrees and approve laws which contradict budget strategy. The reformists now fear that unless he explicitly endorses the 1995 budget itself, it will fail to command

domestic and international support. Mr Yeltsin has recently approved a law abolishing a profit tax paid by banks, and is said to be in favour of signing legislation raising minimum wages.

Government officials admit that the first quarter of the new year will be exceptionally difficult as revenues are traditionally low at that period and the costs of the Chechen war are mounting. However, they also believe that the budget deficit of 8.2 per cent of official gross domestic product (estimated at Rhs\$25,000bn) can be brought down in part because the GDP forecast is too low.

They also believe that if the IMF can agree on a standby loan in the middle of January, inflation, now running at around 15 per cent a month, can be swiftly lowered as expectations are reduced.

Mr Jochen Wermuth, head of the group of experts working with the finance ministry, said last night that "given recent positive developments in revenue collection and additional revenue measures which the government can implement without the agreement of the Duma [lower house of parliament], it is likely that the government deficit could be as low as 5 per cent, sufficiently low to allow for a credible policy of stabilisation - if supported by a stabilisation fund."

He added, however: "Given the constraints on the budget in the first quarter, quick IMF support for the programme is central."

### Scalfaro plans further round of negotiations

## Italian parties take hard line in government talks

By Robert Graham in Rome

**I**taly's main political parties have staked out intransigent positions in the initial round of consultations held by President Oscar Luigi Scalfaro to resolve the country's government crisis.

As the president winds up today his preliminary soundings, it has become clear that he will insist on further extensive discussions with political leaders before taking a decision. He will also be anxious to test whether there is any flexibility in the hardline positions adopted by the parties.

Political commentators were saying yesterday that he was unlikely to reveal his hand before the end of next week. The prospect of a long drawn-out crisis put renewed pressure on the Dira yesterday and it fell through the psychological floor of £1.60 against the D-Mark to a new record low.

Following last Thursday's resignation of the eight-month-old Berlusconi government, the parties are split between those for and against early elections. Mr Silvio Berlusconi, the outgoing premier, told the president bluntly this week that he had no option but to dissolve parliament and call a snap election.

"We see no other solution but going to the polls," Mr Berlusconi said after seeing the president on Wednesday. The premier claims that he and his rightwing coalition were given a mandate to govern which can

voiced a completely contrary view after meeting President Scalfaro. "We have told Scalfaro he cannot dissolve parliament so long as the majority of deputies believe a new government must be formed," he said.

In the chamber of deputies Mr Berlusconi's Forza Italia, plus its remaining allies - the neo-fascist MSI/National Alliance of Mr Marco Pannella - can muster 277 votes. Even with the backing of some members of the populist Northern League which has left the coalition, Mr Berlusconi falls short of the 316-vote majority. In contrast the combined vote of the opposition is close to 360 if the full League contingent is included.

Mr Berlusconi knows the longer the delay in elections the more he is likely to lose a sympathy vote. His opponents are meanwhile determined to place as many obstacles in his path as possible to prevent him returning to government.

The opposition also shares President Scalfaro's view that early elections without further reform of the electoral system and some fresh budgetary adjustments would be damaging to the country.

However, these measures could not easily be forced upon Mr Berlusconi and his allies, who might retaliate by resigning en masse to demonstrate the lack of legitimacy in the continued life of the parliament.

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PDS leader Massimo D'Alema: opposed to snap election

be usurped by no other political alliance. This view is shared by his allies.

Mr Berlusconi has backed up the call for a quick electoral fix by suggesting the end of March as the polling date - exactly a year after he scored his triumphal success with his Forza Italia movement less than three months after entering politics.

But yesterday Mr Massimo D'Alema, the leader of the former communist Party of the Democratic Left and the effective head of the opposition,

# Mexicans search for a sacrificial victim

By Ted Bardecker in Mexico City

Wall Street has wanted Jaime Serra Puche's head. Managers at the brokerage houses and mutual funds which have lost billions of dollars in the Mexican market over the past two weeks say the country's finance minister, whose position originally looked secure but finally came under threat last night, mismanaged the currency crisis. Confidence in Mexico could not return until Mr Serra's departure, the money managers said - always adding: "Don't quote me on that."

Ahead of the announcement of an economic stabilisation plan by President Ernesto Zedillo, government officials and political analysts said Mr Zedillo would attempt to restore investor confidence by changing policies, not just people.

"So far Zedillo's response to this crisis has been tactical, making moves day by day. But he and his people know that to succeed they need to put together a real strategy," says Prof Guillermo Garduño, professor of political science at the Mexican Institute of Technology. "Replacing Serra only makes sense as a tactic, but it wouldn't be very strategic less than one month into the government."

A political strategy was yesterday

beginning to emerge. One part would be to blame ex-president Carlos Salinas and Mr Pedro Aspe, his former finance minister, for much of the current crisis. This move would follow a tradition in Mexico of the new president coming down hard on the predecessor who hand-picked him.

Specifically, Mr Salinas and Mr Aspe would be taken to task for not devaluing, even when they saw compelling economic reasons to do so. Several senior government economic officials, including Mr Guillermo Ortiz, communications and transport minister who was last night expected to take over from Mr Serra at finance, had been privately explaining the need for a devaluation as early as November 1993.

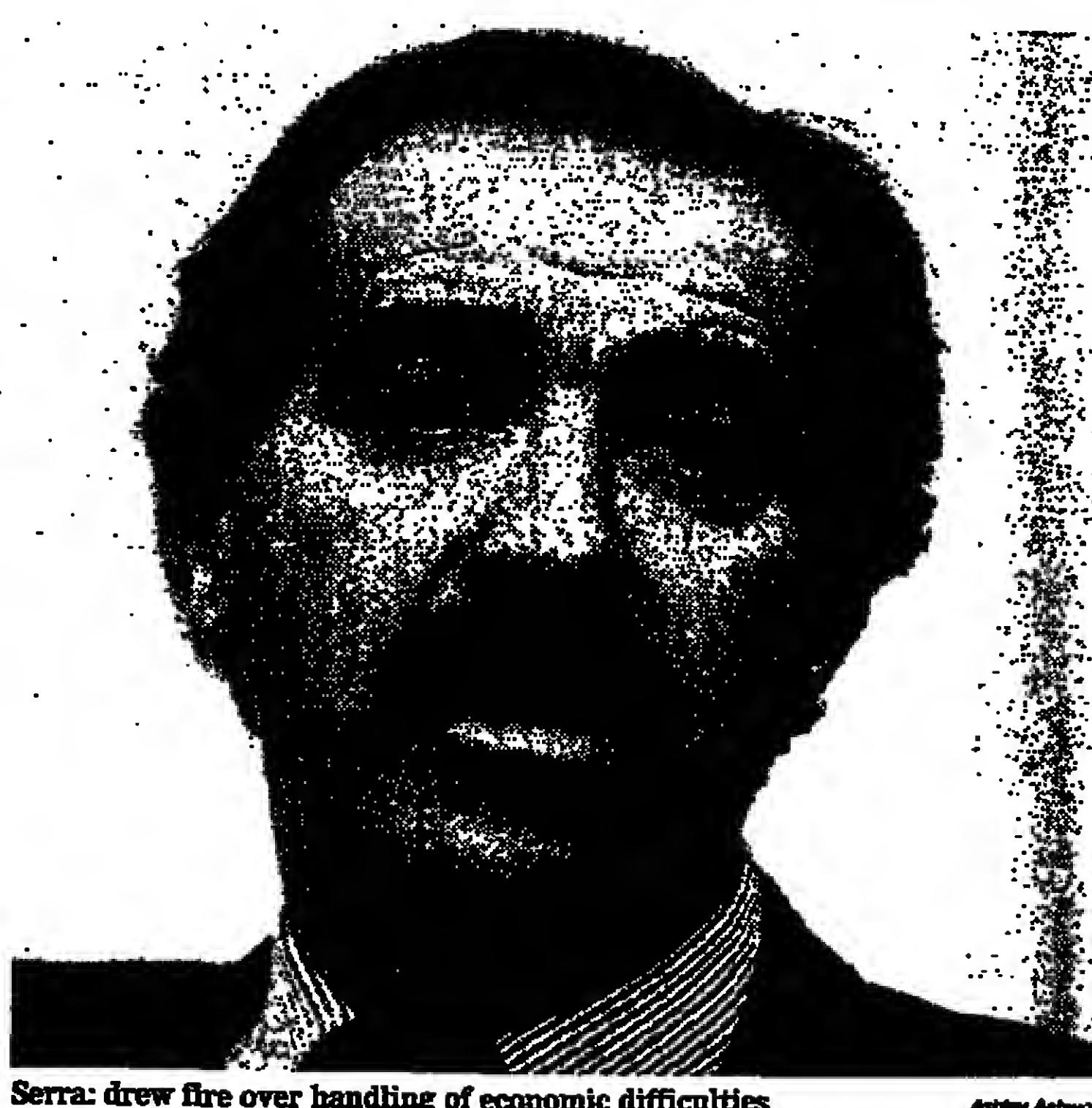
But these officials were overruled by their superiors for political reasons, namely the fear that a devaluation would cause the ruling Institutional Revolutionary party to lose votes in last August's election and take some lustre off Mr Salinas' campaign to become head of the World Trade Organisation. Mr Salinas' dwindling chances of a move to Geneva, and a post-devaluation poll showing the PRI likely to be crushed in February's state elections, show just how right the two former officials may have been.

Many foreign investors would have favoured the return of Mr Aspe to the finance ministry. Political analysts say bringing Mr Aspe back would have been damaging to the presidency, however. "Zedillo needs to consolidate power or this is never going to work. Aspe's return would be a recognition that Zedillo is weak and not in control of the situation," says Prof Garduño.

Mr Ortiz was the most elegant advocate of devaluation in the Salinas administration and was a prime candidate to replace Mr Serra. At communications and transport he was to have carried out many of the privatisations that were expected to be a key component of the stabilisation plan.

"In all wars there are deaths," says Mr Federico Areola, a political columnist. And in Mr Zedillo's war against economic difficulties, the sacrifice of Mr Serra was expected to come "even though he might not be at fault".

Yet government officials recognise that this strategy will not work unless the war in Chiapas province is resolved and political stability is restored. In fact, since the financial crisis began nearly two weeks ago, more progress has been made towards reopening negotiations in Chiapas than on the economic front.



Serra: drew fire over handling of economic difficulties

## INTERNATIONAL NEWS DIGEST

## Israel economy grows by 6.8%

Israel's economy outperformed all 24 Organisation for Economic Co-operation and Development nations in 1993 with a growth of 6.8 per cent in gross domestic product, according to Israel's central bureau of statistics. Israel also led the field with a growth in per capita income of 4.3 per cent, although income remained low by western standards at \$13,730. Fuelled among other things, by an influx of 600,000 immigrants from the former Soviet Union over the past five years, the economy has expanded at an average of 5 per cent a year since the beginning of the 1980s. Figures released this week show unemployment falling from 10 per cent in 1993 to 7.6 per cent this year. This puts Israel ninth among OECD states with the lowest rates of jobseekers.

On the other side of the ledger, however, Israel registered the highest trade deficit and the second highest inflation rate. The trade deficit rose to \$1.3bn compared with \$55m last year. The consumer price index climbed to 12.3 per cent from 11.2 per cent in 1993. Private consumption leapt 9.3 per cent, investment in machinery and infrastructure by 17.3 per cent. While celebrating Israel's economic health, independent analysts are predicting a slow-down in 1995. Mr Yaakov Sheinin, president of the Tel-Aviv forecasting firm, Economic Models, commented yesterday: "These figures mean that the Israeli economy has huge potential. The problem is that after so many years of growth, you run into bottlenecks. We predict that next year the economy will slow down a bit, until the government does something about the housing shortage and inflation." Eric Silver, Jerusalem

## US newsprint shortage worsens

A severe newsprint shortage and steep price increases have led some North American publishers to cut their paper consumption. The shortages, most acute on the West Coast, have been exacerbated by a strike at Fletcher Challenge Canada's three mills in British Columbia which began last week. Fletcher normally produces about 3,000 tonnes of newsprint a day. Publishers' inventories are typically low at this time of year. Strong demand, especially in the southern US, and exports to Europe, south-east Asia and Mexico have also tightened supplies. Gannett, one of the biggest US newspaper groups, is expected to reduce newsprint purchases by 25 per cent. Bernard Simon, Toronto

## Thai, Malaysian ratings boost

Standard & Poor's, the rating agency, has raised its credit ratings for Thailand and Malaysia's long-term foreign-currency debt. Malaysia's rating was raised to single-A-plus from single-A while Thailand's rating was raised to single-A from single-A-minus, with a stable long-term outlook for both. Malaysia's upgrading reflects the country's steady progress in diversifying its export-based economy, prudent macroeconomic management and a political system that balances the demands of its multi-ethnic society, the agency said. Cautious fiscal and monetary policies had led to strong economic growth, averaging 8.7 per cent in the past six years, along with moderate inflation and a strengthening of already robust finances, it added. Thailand's upgrading reflects the maintenance of the country's external payments position and the consolidation of civilian-led democratic rule since 1992, according to S&P. Conner Middlemann, London

## US leading indicators ahead

The US official index of leading indicators rose 0.3 per cent last month, providing further evidence that economic growth is likely to remain robust in the first half of 1995. The increase in the index, intended to give early warning of changes in economic trends, exceeded most analysts' expectations. It followed a revised 0.1 per cent decline in October and a gain of 0.1 per cent in September. Officials said the index had been boosted by positive contributions from five indicators including orders for plant, equipment, orders for consumer goods and materials, claims for unemployment insurance, and commodity prices. Other indicators, including share prices and the money supply, contributed negatively. Michael Prouse, Washington

## French banks raise loan rates

French banks raised their base lending rates by three-tenths of a percentage point yesterday, passing this month's increase in money-market rates on to their customers. Société Générale was the first to announce it would raise its base rate to 8.25 per cent from 7.95 per cent from today. Crédit Lyonnais and the CIC banking unit of insurer GAN followed suit. Banque Nationale de Paris and Crédit du Nord said they would increase their rates next Tuesday. Most other French banks are expected to follow suit. Reuter Paris

## Chinese offshore output dips

Crude oil and natural gas output from China's onshore oilfields will fall short of projections this year but rebound slightly in 1996, according to figures released yesterday by the China National Petroleum Corporation (CNPC), the country's top oil producer. China became a net oil importer in 1983 and has struggled to maintain production levels for its maturing fields as imports have increased sharply to meet soaring energy needs. Onshore crude production in 1994 will stand at 139.4 million tonnes and natural gas at 15.8 billion cubic metres. 0.6 per cent and 3.2 per cent above state-set targets respectively. CNPC said the 1994 output is below CNPC's January projections of 140 million tonnes of crude and 16 billion cu m of natural gas. A Correspondent, Beijing

## Immigrants worry Australians

Australia's federal government is being urged to step up pressure on China in an effort to halt a sudden influx of illegal refugees reaching Australia by boat from the southern Chinese city of Beihai. On Wednesday, a vessel with more than 70 people on board entered Darwin, the fourth in six days believed to be from the Chinese port town. This brought the number of boat people, predominantly Chinese, arriving in northern Australia this year to about 250, the highest annual total since the Vietnam war. More than two-thirds of the arrivals have occurred in the last six weeks. Nikki Tait, Sydney

## US investors nurse bruises from peso crisis

By Lisa Branstrom and Patrick Harverson in New York

The devaluation of the Mexican peso and the country's financial crisis have left US financial institutions - the largest investors in Mexico - nursing some painful bruises.

Economists are worried that US mutual funds, banks, and securities houses may shy away from investing in Mexico. There is already evidence that some are withdrawing altogether, at least temporarily.

One US mutual fund is said to have decided to liquidate its peso-exposed investments after seeing the value of its Mexican holdings decline as much as 20 per cent. According to a debt trader at one US bank, the fund is selling the securities in anticipation of redemptions that may come in after the fund ends out its year-end statement in several weeks.

The trader said that the fund had bought at least \$150m of the debt of a large Mexican company at an issue price of \$1.02. After the crisis broke, it tried to sell the paper for \$0.22, but had trouble finding buyers.

For another fund group, Massachusetts Financial Services of Boston, the currency crisis meant a loss of about \$11m across several funds with total assets of more than \$3bn. Mr Jeffrey Kaufman, who manages emerging market debt for several of the company's mutual funds, said that in the wake of uncertainty about the government's economic plan the company pulled all its peso-exposed debt out of Mexico.

But he added, "I don't view our exit as permanent because I think the Mexican government can take steps to rebuild its credibility."

According to the latest figures from the Securities Industry Association, US investment in Mexican stocks totalled more than \$1bn in the middle of this year. In the Mexican debt market, US investors held more than \$2.2bn as of last June. On the equities side, analysts calculate that the dollar value of US investments in Mexican stocks would have declined more than 30 per cent if they had been held throughout the week-long crisis.

Lipper Analytical, a research

firm, said that open-ended Mexican equity funds in the US declined an average 25 per cent between December 16 and December 23 and open-ended bond funds fell by an average of 16 per cent over the same period.

In spite of these losses, however, most US funds dedicated primarily to Mexico or emerging markets appear to have decided to cut out the crisis.

Mr William Truscott, assistant manager of the Scudder Latin America Fund, which held about 30 per cent of its \$725m in assets in peso-denominated securities, said he would stay the course in Latin America although the fund had lost about 20 per cent since the first devaluation on December 19.

Like many other managers, Mr Truscott expressed anger over the way the month-old administration of Mr Ernesto Zedillo chose to execute the devaluation.

"There is general shock," he said. "The handling of this problem by the current administration stands in stark contrast to the Salinas administration where there was always a plan and a contingency plan

### MEXICAN TESOBONOS Short-term dollar securities falling due in 1995 (\$)

January	3.82bn
February	3.40bn
March	3.22bn
April	1.65bn
May	2.72bn
June	1.94bn
July	3.75bn
August	4.14bn
September	650m
October	864m
November	2.20bn
December	715m

Source: Bank of Mexico

currency and the equity and fixed income markets. There is a fair amount of concern among investors related to credibility that has been jeopardised," said Mr Goodman.

For US commercial and investment banks, meanwhile, the immediate fallout from the peso devaluation has been the losses incurred on their portfolios of Mexican debt securities. Mr James Hanbury, banking analyst at Wertheim Schroder in New York, said the peso's decline ensured that a difficult trading year for banks ended on a suitably bleak note. "In a quarter where securities trading and bond trading profits have been terrible, this will be another piece of bad news."

Not all US banks suffered trading losses. Although shares in Citicorp fell last week after the peso was floated because of concern about the earnings of the US bank with the biggest exposure to Mexico, analysts said the bank was protected because it had a big local currency business in Mexico and so did not need to take risks trading Brady bonds and Latin American debt in New York.

Bear Stearns, a big trader in the secondary market for Mexican securities, was also said to have fared well last week. One analyst said the firm told him that it had broken even on its Mexican debt trading during the crisis. Although he was not sure how the firm managed to survive the devaluation unscathed, the analyst said of Bear Stearns: "They're smart. Also, this [the devaluation] did not exactly come as a total surprise to everybody. They could have been short or flat. And they could have been lucky."

Now the big questions are, said Mr Hanbury, "What happens to Mexican credit in 1995? What will the economy do? How will Mexican companies pay their debts when their earnings are in pesos and their debts in dollars? What is the knock-on effect of all this? We just don't know."

The crisis also had serious implications for Mexico's capital-raising ability, he said. "A good deal of Mexican stocks and bonds are owned by outsiders. That puts them at risk in raising capital because foreigners will be frightened for a while."

the real turning point for the government's fortunes.

Mr Cardoso, a former academic and skilled politician, assembled a team of economists to launch a new currency specifically designed to stop inflation and elect him as the next president.

Mr Franco also agreed, for the first time since becoming president, that he would cede control over the economy to the finance ministry.

"Other than personal friends, the president only fully trusted Fernando Henrique Cardoso, who was also the only man alert enough to [Mr Franco's] sensitivities," according to an outgoing government member.

After it started to recover in 1993, helped by a more competitive private sector and rising commodity prices, Mr Collor was out of office and Mr Franco was in place to take the credit.

Although he was criticised for appearing to have no overall economic policy, and for losing three finance ministers in seven months, Mr Franco's first full year in office saw gross domestic product grow by about 5 per cent, compared to zero or negative growth since 1990.

This year, helped by the Real's success, growth should be about 4 per cent.

Mr Cardoso's appointment in May last year as Mr Franco's fourth finance minister was

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## CIA chief who quit the troubled world of spying

By Jurek Martin in Washington

The summit may also herald a concerted effort to rebuild Arab bridges after the divisions caused by the 1991 Gulf war and the unilateral decision by the Palestine Liberation Organisation to sign a separate peace agreement with Israel.

The three leaders said they "highly appreciated Syria's serious efforts" to make the deadlocked peace process a success and urged the US and Russia, the co-sponsors, to work towards "removing the obstacles the Israeli side puts in the road to peace".

## NEWS: A YEAR OF CORRUPTION



Antonio Di Pietro, star of Italy's clean hands investigations until he resigned this month, has become a celebrity after exposing an entire political generation

## Politics, money and crime: a world on the take

1994 has seen corruption making headlines across the globe. Andrew Adonis explains why

**T**his has been a year of concern about corruption the world over. Gone are the days when developed countries could smugly believe they had outgrown endemic corruption or the Anglo-Saxons that they were not like the southern Europeans and Latin Americans. Three broad categories of illicit practices are evident. The first could be called "sleaze" - dubious practices on the margins of impropriety, involving relatively small sums and favours. Congressional scandals in the US and the "cash for questions" furor in the British parliament belong here. In both cases, offenders took advantage of lax rules or found themselves in the darker grey regions of tolerable practice. In the UK, it was not previously clear that MPs should declare all outside income in the Register of Members' Interests, while there was no clear divide between "acceptable" consultancy fees and "unacceptably" pocketing fees for posing par-

liamentary questions.

Sleaze is readily tackled by tighter rules and more effective policing, though if parliamentarians and officials feel themselves underpaid, some are bound to seek dubious earnings.

The same applies to the second category of corruption associated with "re-inventing government". As executive restructuring advances, with contracting-out, privatisation and devolution at its heart, new institutions are thrown up without the cultural or regulatory safeguards of the old.

France and the UK are the year's foremost cases. France with scandals involving new regional councils and the contracting-out of municipal services. Britain through dubious practices in new state agencies, particularly in the health sector.

The moral is clear: it is rash to assume that safeguards against corruption, however deeply embedded in existing institutions (such as the elite

national civil services of Britain and France), will take root elsewhere without strenuous incubation.

The third category of corruption - the endemic, enjoying a wide measure of social tolerance and flourishing despite rules to prevent it - is the most difficult to address. This is because it is the most deeply

Editorial Comment, Page 13

rooted, and comes in a wide variety of forms.

In some cases, such as Japan, the exchange of favours for cash is a common practice. In others, notably Yeltsin's Russia, extortion and racketeering are widespread and the rule of law weak; with dictatorships, the economy often becomes little more than a private fiefdom.

Furthermore, the exposure of such corruption often has more to do with a change in circumstances - such as, in Italy, the rise of assertive judges - than

with an increase in corruption per se.

The past year has shown that where corruption is endemic it is hard to tackle. France, India, Japan, Italy and Brazil - to take the most notorious cases - have seen governments elected with the eradication of corruption as prime objectives founder helplessly, in some cases with "reformist" ministers - even prime ministers - charged with complicity in corruption.

Endemic corruption has an impact outside the countries immediately concerned because those doing business with them are almost invariably suckered in. Strict controls, such as those imposed by the US on its companies abroad, are not panaceas, although Dr Mark Pletch, chairman of the OECD working group on international business bribery, would like to see them more widely adopted. In Africa and Asia-Pacific, it is an open secret that many western companies use local joint venture

partners to engage in the bribery needed to win contracts.

So what is being done?

Where the reliance of politicians on corporate cash has caused scandals, state funding of political parties is a stock response.

According to Dr Karl-Heinz Naumann of Oldenburg university, such funding has grown "dramatically" in the past 10 years.

State aid can help substitute

for big corporate donations, but it rarely gets to the root of the problem, which is the expense of election campaigns.

Dr Michael Pinto-Duschinsky, an expert on party finance at Brunel university, says: "Anti-corruption policies largely focus on management techniques, rather than on limiting campaign expenditure - and therefore reducing the debts which politicians have to pay."

France, where the launch of generous state aid in 1988 did nothing to avert this year's scandals, is a case in point.

Where institutions exist - such as the Milan magistracy

### Scandal month by month

#### JANUARY

Brazilian police report names 100 leading politicians

#### FEBRUARY

Aborigines bring state contracts with US oil companies to court

#### MARCH

US president Clinton signs anti-corruption bill

#### APRIL

US president signs anti-corruption bill

#### MAY

Madagascar's former president resigns amid corruption claims

#### JUNE

Chairman of Lockheed's UK subsidiary resigns amid corruption claims

#### AUGUST

Colombian police corruption scandal: South Korea investigates bribery in nuclear industry

#### SEPTEMBER

China's Communist leaders call for renewed campaign against corruption

#### OCTOBER

Two British ministers resign following "cash for questions" future

#### NOVEMBER

Reported media allegations of government corruption in Spain

#### DECEMBER

British ministers resign after securities market scandal and sugar shortages

### FRANCE

## Brave judges pursue ministers

By David Buchan in Paris

A wave of French corruption scandals this year has led to the resignation of two ministers, the detention of a third and of a senator, the investigation of the presidents of Alcatel and St Gobain as well as of lesser company bosses, and widespread pressure for a divorce between corporate money and politics.

As a result, just before Christmas, the French parliament passed a law banning company donations to political parties and candidates.

Though he was later forced by public opinion to back new legislation, prime minister Edouard Balladur's initial reaction was to argue that the very fact that scandals were surfacing was proof that existing political financing laws were adequate.

To a large degree, he was right. Magistrates are without doubt bolder in their targets and their tactics than they were. A Lyons magistrate had little hesitation in detaining Mr Alain Carignon, the former communications minister, in prison on charges relating to the award of a water contract to Lyonnaise des Eaux by the city of Grenoble, of which Mr Carignon is still mayor. A judge from Rennes has relentlessly pursued Mr Gérard Longuet, the former energy minister, over allegations concerning his personal finances and those of his Republican party.

One particular politician-businessman, Mr Bernard Tapie, has complained of a witch-hunt, noting that over the past 18 months investigation of his tangled affairs has involved 50 fraud squad officers detaining 74 people and taking no fewer than 230 sets of fingerprints. Yet it could be argued that it was only Mr Tapie's inclusion in the last Socialist government that prevented these investigations from starting earlier.

However, it appears that the volume - not just the visibility - of corruption may be on the increase, for several reasons. One is that the crack-down on the Mafia in Italy has led organised crime to branch into neighbouring regions, such as the French Riviera. French magistrates now meet regularly with their Italian counterparts to tackle this.

A more general problem is the consequence of the past 10 years of devolving more power from Paris to the country's 22 regions and 95 departments. This puts more power to award contracts into the hands of local politicians. And they have used this power.

Part of France's new anti-corruption legislation is designed to make the award of public contracts more transparent and therefore less open to suspicion of sweetheart deals between contractors and local politicians.

But the law's total ban on corporate contributions to political parties and candidates will return the country to its pre-1988 situation when such contributions were illegal - in theory punishable as a misuse of corporate funds, but in fact widespread and tolerated.

"This will just bring back the era of the big men," predicts Mr Guy Carcassonne, a Paris law professor who helped the Rocard government design its 1990 law. This legalised limited corporate political contributions and required them to be reported to a control commission. It has hardly had time to work, and the fear now is that corporate money will continue to flow to politicians, but in envelopes and suitcases.

## Corruption has become so pervasive the practice carries no stigma

By Robert Graham in Rome

Anti-corruption investigations have decapitated Italy's post-war political élite and discredited hundreds of businessmen and civil servants.

Yet after almost three years of investigations spearheaded by Milan magistrates, the impetus is beginning to wane and public interest to decline. The magistrates' battle to stamp out the worst aspects of corruption is also degenerating into a conflict between the judiciary and the executive branch of government.

The most spectacular instance of this conflict is the move by Milan magistrates to incriminate Mr Silvio Berlusconi, the outgoing prime minister, for permitting corrupt practices in his Fininvest business empire. Mr Berlusconi's government countered by sending inspectors from the justice ministry to check on the activities of the Milan magistracy.

Businesses funded the political parties with illicit contributions to individuals, internal movements and party secretaries. How much of this money was used for political activities as opposed to lining individual pockets is still a mystery. People have only admitted to what has been proven against them and most of the money was channelled outside the Italian banking sys-

tem (mostly to Switzerland, Monaco and Luxembourg). In return the businesses were awarded access to state subsidies, were awarded rigged contracts and were protected from external competition.

The most detailed exposé has concerned the Fertuzzi-Montelius industrial group which spent more than £150m (£350m) between 1989 and 1992 in ensuring political protection. However, the Fertuzzi family and former top executives insist their pay-offs were involuntary - a defence raised by every business involved in corruption scandals. In other words businessmen were the corrupted not the corruptors.

The second phase of investi-

gations is intended to demonstrate that the distinction between corruptors and corrupt is spurious. The core plot is emerging from an investigation into the Guardia di Finanza. This involved 50 members of this force plus many prominent business names.

The Guardia di Finanza are accused of taking bribes to turn a blind eye to poor or dishonest accounting and in return for low tax assessments.

In Italy it is common knowledge most companies keep two sets of books and that evasion is widespread. Pervasive corruption is encouraged by large sums of "grey" money that escape the tax net. If companies pay large bribes they can be dressed up as fake consultancy fees but more simply they are never registered in the formal books.

This lack of transparency is encouraged by the existence of a huge criminal world, which has enjoyed a degree of political protection and which needs to launder money on a vast scale and by the fact that the bulk of "legitimate" business is carried out by very small family concerns which are not easily monitored.

Businesses claim it is simpler to bribe the Guardia than to go to trial. The Milan magistrates argue the businessesse have put themselves in a position where they have things they wish to keep quiet and are therefore willing to pay. The magistrates are out to break this relationship and demonstrate that bribing a public servant - one in uniform who polices the most sensitive aspects of the nation's

finances - is a serious crime and not something "that everyone does".

The Guardia inquiry has shown public servants and businessmen brazenly continuing corrupt activities, even when the nation has been convulsed by corruption scandals. In part this is because corruption has become so pervasive the practice carries no stigma.

The issue has perversely become not how to stop the practice but how far the magistrates should be allowed to go in their investigations. The investigative process - let alone the passage through the courts - could last well into the next century. Politically such an open-ended timetable is highly destabilising. Yet any government that seeks to find a political solution risks being accused of letting the thieves go free and undermining any subsequent attempt to impose new moral standards on society.

Under its rules, no government official, high or low, may accept gifts or entertainment worth more than \$20 per occasion or \$50 per year from any single source, which has put a bit of a crimp in the Washington lunch trade, if nothing else.

Those who leave government now face tougher than ever curbs on their ability to walk through the revolving door into related commercial activities, especially if run by non-American interests. The restrictions may seem petty, even a disincentive to public service, but the climate of the times and voices such as that of Ross Perot demand them.

The administration also

## Rules of the game become ever tighter

By Jurek Maron in Washington

It was only about 30 years ago that an intrepid reporter summed up the nerve to ask Orval Faubus how it was that since he was born dirt poor and had never earned more than \$10,000 a year as a multimillionaire of Arkansas he was able to retire to a splendid mansion. "I was parsimonious," was the reply, and that was pretty much the end of the story.

He could not have got away with the answer today. Hardly a week passes without an elected or public official coming under the investigative gun of the media and a federal, state or independent counsel.

A sitting member needed to spend \$20m to \$30m in the six months leading up to an election, and \$50m to \$70m in routine annual running costs, depending on the size of the constituency, just to stay in business, estimates Mr Dan Harada, a political consultant.

Under the new system, the average politician will need to collect nearly twice as many votes as before to get elected. He will have to be top of the poll, rather than in the first five or six.

He or she will also be under just as much pressure as before to buy those extra votes with cash, rather than policies. The recently formed main opposition party, the New Frontier party, espouses policies largely indistinguishable from the LDP, while the Socialists have dropped most of its left-wing baggage to forge a coalition with the LDP.

### UNITED STATES

being indicted on several counts of misusing congressional funds. (He was later defeated at the polls.) Mr Mike Espy, agriculture secretary, resigned because it was alleged he had accepted sports tickets and other favours of fairly nugatory value from agribusinesses he was supposed to regulate.

It is said, with some accuracy, of Mr Rostenkowski and Mr Espy that they failed to understand there had been changes to the once lax rules of the game applied in Congress where often modest favours (such as hospitality) were received and dispensed.

At the heart of the White-water affair is the suspicion, still unproven, that money flowed in a clandestine manner from business interests to then Governor Bill Clinton's campaign in Arkansas and, perhaps, subsequently at the national level.

Congressman Newt Gingrich,

the next Speaker of the House, is the subject of persistent questions about the funding and uses of his political action committee, the legal device through which so many politicians channel contributions.

Congressmen are also, by definition, beholden to powerful constituent interests. Senator Jesse Helms from North Carolina and Congressman Thomas Bliley of Virginia, for example, have never disguised their protection of their home state tobacco farmers, who have returned the favour with campaign money and, equally important, jobs for voters. In an era of ever more expensive elections, disappointing such interests can be costly.

Indeed, the rules of the anti-corruption game are forever changing, with the appearance of impropriety seeming to take precedence over the act itself. The Clinton administration came to power having campaigned against Republican "sleaze" and promised the highest ethical standards.

The administration also

curiously, US politicians may be held in low regard for their ethical standards but the evidence of endemic and wholesale political corruption remains relatively thin. The main difference is that any American hand caught in the cookie jar, no matter how small the hand, may end up raised in front of a grand jury.

100 in 150

دعا من الاعمال

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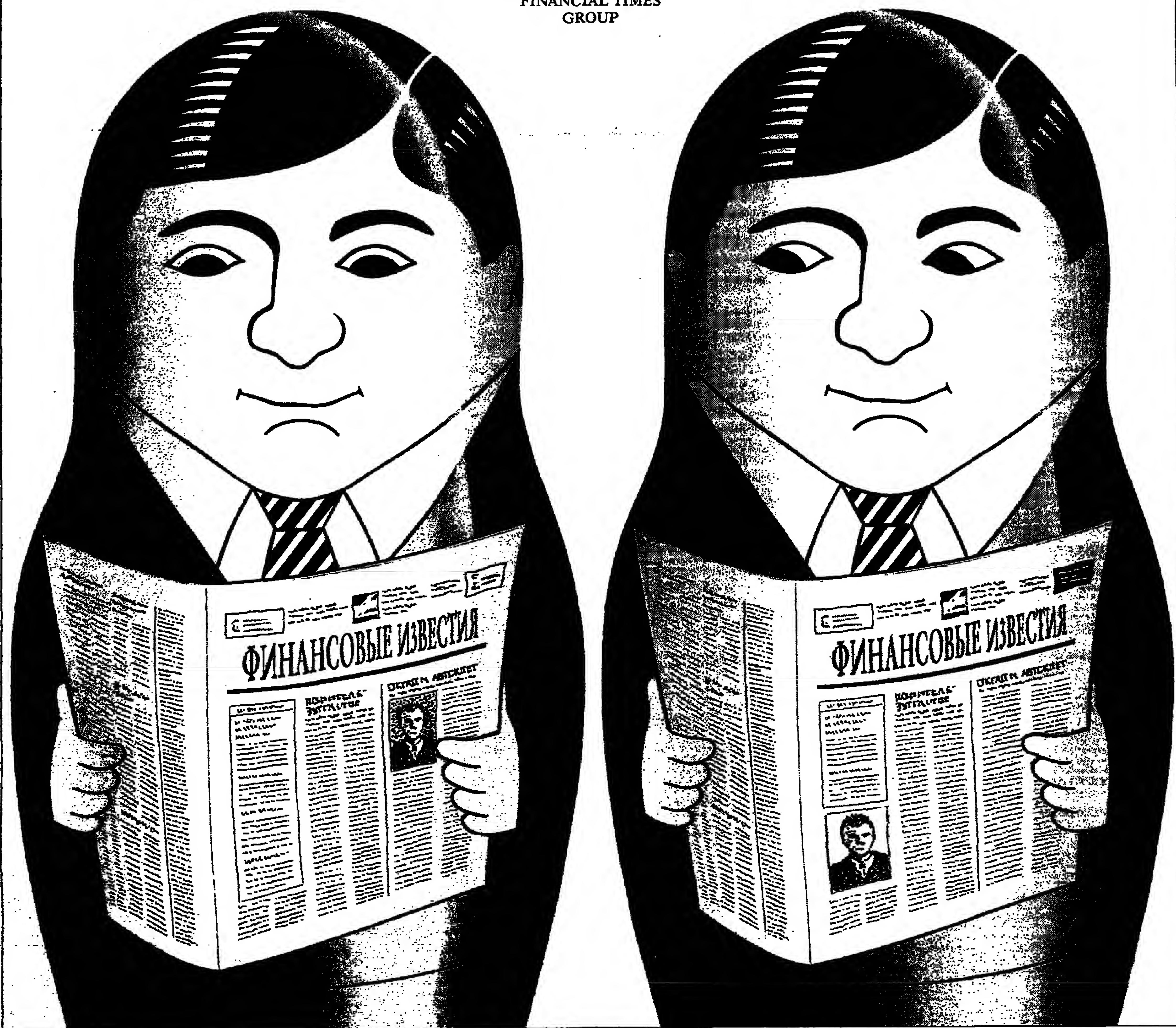
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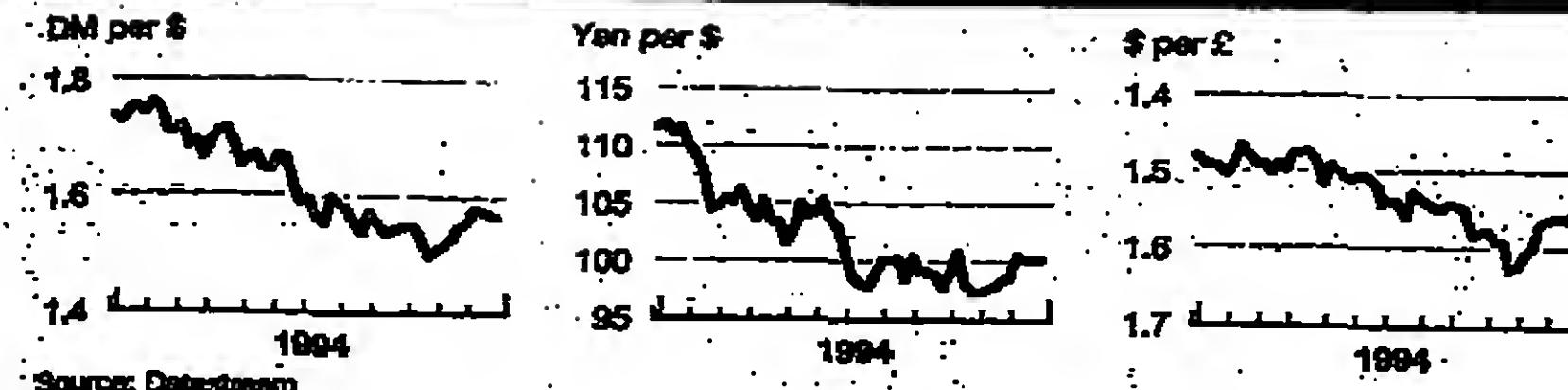
FT PROFILE



# THE YEAR 1994

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But it looks good against the peso



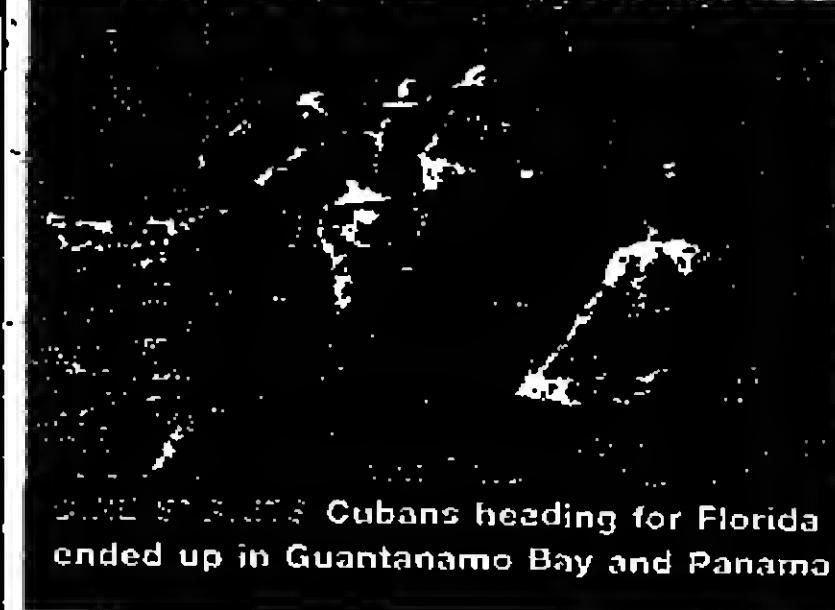
Source: Datastream

"I am a totally unexciting person."  
Germany's new president Roman Herzog  
"The headlines have already been written.  
Tomorrow's paper will read: 'Bozo, backstabbed  
Old Senate Party Still Don't Get It'."  
Republican Senator Alan Simpson after an  
admiral who mishandled probe into sexual  
harassment at Tailhook convention was  
allowed to retire with a promotion

"In cultures that routinely eat beans, you don't hear  
a lot of complaining about flatulence."  
Dr Gregory Steyer, US Department of  
Agriculture expert on beans

"Her moral compass is as strong as anybody's in  
the country."  
Bill Clinton on Hillary  
Rodham Clinton

99



Cubans heading for Florida  
ended up in Guantanamo Bay and Panama



Railway children  
Jimmy Knapp  
Bob Norton  
One-track mind  
Peter Tatchell  
Two-track mind  
Wolfgang Schaeuble  
All aboard  
Santa Fe Pacific



Palestinians, in charge on their own soil, fell out among themselves



A to Z  
Abu Dawayd  
Chiapas  
Di Prato  
Esbab  
Fayed  
Grozny  
Hamas  
Internet  
Javier de la Rosa  
Kuchma  
Lame  
MIMs  
Muhs  
Oe  
Postman  
Quangos  
Rutland  
Grazie  
Topic  
JBS  
Viscom  
Whips  
X-Films  
Yabba dabba doo  
Zoffito



Brazil won World  
Cup on penalties



"I cannot help wondering if the Royal Family were less well protected and privileged would their children be taken into care."  
Letter in the Daily Telegraph

"If we are to broaden the debate about constitutional reform as regards the monarchy should we not be considering the Russian as well as Scandinavian models?"  
Letter in the Guardian

"No amount of clever words or verbal gymnastics can hide the fact that the government has made a fool of Britain in Europe, the cabinet has made a fool of the foreign secretary, and the prime minister has frankly made rather a fool of himself."  
Paddy Ashdown

"Why don't you stand aside and make way for somebody else who can provide the party and the country with direction and leadership?"  
Conservative MP Tony Marlow to John Major

John Smith "is the man who likes to say 'yes' to Europe - Monsieur Oui, the poofie of Brussels."  
John Major



WTF last one  
out...  
Lloyd Cutler  
Webster Rubell  
Bernard Nussbaum  
Lloyd Bentson  
Dee Dee Myers  
David Gergen  
Landing rights  
Kansai  
Orly  
White House team

## JULY

**Y**asser Arafat comes home to Gaza and then Jericho as Israeli protesters clash with police in Jerusalem. Lasmo escapes Enterprise's bid. Colombian Andres Escobar is murdered for scoring an own goal and Brazil wins the World Cup in a penalty shoot-out. Derek Keys resigns as South African finance minister. Kim Sung of North Korea dies; his son, Kim Jong-il, takes over. Leonid Kuchma wins Ukraine's first presidential election. Jacques Santeus of Luxembourg is chosen as European Commission president. John Major shrugs Ian Patten out the door. Jeremy Hanley becomes party chairman. Michael Portillo takes on the (un)employment portfolio and Jonathan Aitken is appointed Treasury chief secretary. Tony Blair beats Margaret Beckett and John Prescott to lead Labour. Prescott elected deputy. Prince Charles admits on television he was unfaithful to his wife - but only after his marriage had "irretrievably broken down". Cholera breaks out among Rwandan refugees in Zaire. Salvatore Sciacca, senior manager at Pininfarina, admits paying three bribes to Italy's financial police. The Department of Trade and Industry takes no action against Lord Archer. MMM, pyramid investment company, collapses in Russia. Culture minister Jacques Toubon launches a campaign to restrict use of foreign languages in France, and becomes known as "Mr Allgood". Kelvin McKenzie falls from Sky.

## AUGUST

Irish Republican Army calls "unconditional" - but won't utter the word "permanent" - ceasefire, after 25 years of Ulster violence. Five French gendarmes and consular officials are killed in Algiers. China and Taiwan reach their first substantive agreement since 1949. Bosnian Serbs refuse to endorse an international peace plan. Sergei Mavrodi, president of MMM, is arrested. Israel and Jordan open a new border crossing. Susana Iglesias decides to stand against hubby Alberto Fujimori in Peru's presidential election. The Fed lifts US interest rates again. "Carlos the Jackal" is captured. German with something to declare is arrested in Bremen with a stash of plutonium. UK inflation rate falls to lowest in 27 years, but "feel-good" factor is elusive. Another victim is caught in the Whitewater brothel. Robert Altman quits. Florida declares emergency as Cuban refugees flood into the state. Clinton announces tighter trade embargo on Cuba and thousands of refugees are housed at Guantanamo Bay. Ethical investment manager Franklin Research and Development buys Body Shop International shares, citing concerns about its social and environmental activities. Earthquake kills 151 in Algeria. French troops quit Rwanda. Ernesto Zedillo wins presidential election in Mexico. Lockheed and Martin Marietta agree \$10bn merger. Kelvin McKenzie falls from Sky.

## SEPTEMBER

A Irish Reynolds meets Sinn Fein, John Major ejects Democratic Unionist Ian Paisley from Downing Street, and Gerry Adams visits the US again. The Estonia sinks between Tallinn and Stockholm, with the loss of more than 900 lives. Britain's four-month rail dispute is finally settled. Louro's Flyv Rowland escapes a challenge from Dieter Bock (but not for long). Moslems and Catholics ally to protest against birth control and abortion at the International Conference on Population and Development in Cairo. Malaysia lifts its UK trade ban. John Major calls for a drive to dislodge "yob culture" in Britain. The fifth US Air crash in five years kills 122 people. Kenneth Clarke lifts UK rates to 5.75 per cent as GDP is at its highest level in six years. A small aircraft crashes into the White House. Diplomat Jimmy Carter makes a deal with Haiti's junta leader Raoul Cedras, for return of ousted president Jean-Bertrand Aristide. US troops land in Haiti for Operation Uphold or Restore - Democracy. John Major visits South Africa. Plague in India kills 50. Francisco Ruiz Massieu, secretary general of Mexico's ruling PRI, is assassinated. British Aerospace launches bid for VSEL, the UK submarine maker. Boris Yeltsin can't find his feet after landing in Dublin. Was he legless? Knock-knock. Who's there? OJ. OJ who? You're on the jury. Simpson's trial opens in Los Angeles.

## OCTOBER

**A**lbert Reynolds meets Sinn Fein, John Major ejects Democratic Unionist Ian Paisley from Downing Street, and Gerry Adams visits the US again. The Estonia sinks between Tallinn and Stockholm, with the loss of more than 900 lives. Britain's four-month rail dispute is finally settled. Louro's Flyv Rowland escapes a challenge from Dieter Bock (but not for long). Moslems and Catholics ally to protest against birth control and abortion at the International Conference on Population and Development in Cairo. Malaysia lifts its UK trade ban. John Major calls for a drive to dislodge "yob culture" in Britain. The fifth US Air crash in five years kills 122 people. Kenneth Clarke lifts UK rates to 5.75 per cent as GDP is at its highest level in six years. A small aircraft crashes into the White House. Diplomat Jimmy Carter makes a deal with Haiti's junta leader Raoul Cedras, for return of ousted president Jean-Bertrand Aristide. US troops land in Haiti for Operation Uphold or Restore - Democracy. John Major visits South Africa. Plague in India kills 50. Francisco Ruiz Massieu, secretary general of Mexico's ruling PRI, is assassinated. British Aerospace launches bid for VSEL, the UK submarine maker. Boris Yeltsin can't find his feet after landing in Dublin. Was he legless? Knock-knock. Who's there? OJ. OJ who? You're on the jury. Simpson's trial opens in Los Angeles.

## NOVEMBER

**U**S voters deliver crushing blow to the Democrats, giving Republicans their most sweeping congressional and state gubernatorial victories in more than 50 years. Oliver North and Michael Huffington narrowly lose their bids for the Senate. Passengers and crew rescued from burning Italian cruise ship Achille Lauro. Fed raises short term rates by 3/4 point. Storms in Egypt kill 410; rainstorms in Italy kill 55. UK cabinet abandons the sell-off of the post office. After threatening a cabinet suicide pact if rebels vote down an EU contributions bill, the government wins and strips eight Euro-sceptics of the whip. A self-flagellator, much in whips himself. Tony Blair loses his single tie with Dieter Bock. The UN and NATO attempt to repel Serbs from BiHac. Sweden votes yes, Norway votes no to the EU. The bungled extradition of a priest accused of child abuse triggers a political crisis in Ireland. Violence in Gaza strip kills 11. A leaked draft reveals plans for Tory backbench "yobs" to beat up Blair, metaphorically. British Gas chief executive Cedric Brown receives \$205,000 pay rise. Clinton and North Korea sign accord to defuse nuclear tensions. John Paul Getty II helps save the Three Graces from extradition to California's Getty Museum. Sir Leon Brittan loses eastern European Commission's portfolio. Fernando Henrique Cardoso elected president of Brazil.

## DECEMBER

**R**ussia sends tanks, troops and bombers to break-away region of Chechnya. Cebu City sinks of Manila - 275 of 488 people are rescued. Tory rebels vote against raising VAT on household fuel to 17.5 per cent. In his second budget in 10 days, Kenneth Clarke plugs gap with tax on petrol, cigarettes and alcohol, then raises base rate to 6.25 per cent. Orange County investments turn to lemons, prompting California district to declare bankruptcy. Tsutomu Hata and Yoshiaki Kaifu compete for leadership of the New Frontier (literally "New New") opposition alliance. S.C. Warby and Morgan Stanley announce merger talks and scrap them a week later. UK begins exploratory talks with Sinn Fein and calls for IRA to lay down its weapons. Jacques Delors ends weeks of speculation to announce he will not stand for French presidency. Israel and PLO deadlocked over Palestinian elections. Daily Mirror and Sun go to court to overturn injunction protecting the £18m National Lottery winner and then decide not to print his name. News of the World does. Maurice Saatchi, co-founder of Saatchi & Saatchi, ousted as chairman. Labour wins Dudley West by-election by huge majority. Fine Gael's John Bruton elected Irish prime minister. Silvio Berlusconi fights for his political life. Mexico devalues peso. French anti-terrorist police successfully storm hijacked Airbus at Marseille.

TIME FOR PEACE



IRELAND Quibbling over words and weapons did not douse the flames of hope sparked by ceasefire after 25 Troubled years



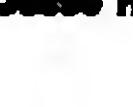
"Conservatives who fought in the war like Ted Heath and Willie Whitelaw would never have been guilty of turning the death of 36,000 soldiers, sailors and airmen into a television game show."  
Lord Healey on the D-Day anniversary controversy

"We Romans are long used to being tolerant. Since Caligula proposed a horse to be senator we are not surprised by anything."

Green spokesman Massimo Scalise on proposal to nominate Northern League's Irene Pivetti, 31, as speaker of Italian Chamber of Deputies

"Mr Clinton better watch out if he comes down here. He'd better have a bodyguard."

Jesse Helms



Penalty spot  
Bruce Grobbelaar  
George Graham  
Dame Shirley Porter  
Saved!

Tottenham Hotspur  
George Walker  
Damned  
Pergau

In

Austria  
Finland  
Sweden  
Out  
Norway

Spells

VSEL

Speller

GEC

Spotted?

EAE

WTF last one  
out...

Lloyd Cutler

Webster Rubell

Bernard Nussbaum

Lloyd Bentson

Dee Dee Myers

David Gergen

Landing rights

Kansai

Orly

White House team



UK Under new management

US Congress, Westland, LTV, Rover, Vic Lew, Bobyachan, Snapple, Group Victoria, Attwoods, Sterling Health, Lycet, Lancer Bass, Decortefield Pharmaceuticals Services, Messer Ferguson, Kidder Peabody, Lee Minerals, Hong Kong Group, Gerber Products, America, Gymnic, Ziff-Davis, Alcoa Engine, Control Techniques, Schickelbaum, Kressbauer, American Tobacco, Adon

99

Brief sliding  
moments  
Rudolph Schurping  
Jean-Luc Delaune  
General Sir Michael Rose  
Comcast

Rough traders  
Lord Archer  
Erico: Gals  
Joseph Jott  
Sergio Ermotti

Utility winners  
Utility directors

PEACE PIPES Hussein and Rabin lit Mideast optimism



JUST LIKE THAT! Blair and Prescott lifted the spirits of a grieving Labour Party



"I am naturally sad about it, but given the background you cannot expect me to be overwhelmed with grief."

Sir Anthony Buck on departure of chief of the defence staff Sir Peter Horvington, after disclosure of his affair with Lady Buck

"It is a bit annoying. It is like going through divorce proceedings and suddenly finding out that your partner is really good in bed."

Financial adviser to Pitt Rivers on UK company's second thoughts about merger

"Brokers, using terms such as 'marketability' and 'liquidity' sing the praises of companies with high share turnover... but investors should understand that what is good for the coupler is not good for the customer. A hyperactive stock market is the pickpocket of enterprise."

US billionaire Warren Buffett

"I asked President Sartori to call elections as soon as possible and I also suggested a date."

Silvio Berlusconi, illustrating why

Milan is a Romance language



NOW! Delors left French Socialists in a quandary by shunning presidential race



On the ice  
Tanya Harding  
National Hockey  
League

Designed by Andrew Chappin  
Monthly review by Motozo Rich  
QE2

Nightmare before Christmas  
Derivatives  
Other 1994 reviews

Edited by Clay Harris  
Designed by Andrew Chappin  
Monthly review by Motozo Rich  
QE2

Graphics by Joe Russ Birkett  
Photographs by Reuters / AP



## ARTS

# Britain's opera houses move into the future

Richard Fairman reviews a morale-boosting year of innovative productions, noisy audiences and new theatres

The nation may have lost its enthusiasm for moving house, but opera companies are on the move as never before. In a round of keeping up with the Joneses that puts Acadia Drive to shame, UK opera companies are all - with one exception - in the process of redeveloping, upgrading, or building new homes from scratch.

It has not gone unnoticed in political circles that the first new opera house to open its front door to the public was the only one in the private sector. Glyndebourne did everything right. Having raised private sponsorship during the boom years, it built its new theatre when costs were low during the recession. Unveiled in May, 50 years to the day after the first performance in the old house, this handsome building combines good acoustics and international class, all at the very reasonable price of £33 million.

Nobody will have begrimed Glyndebourne's year of triumph, not even those who booted the new production of *Don Giovanni*. As well as the theatre, this year's festival inaugurated a new artistic partnership between Andrew Davis as music director and Graham Vick as director of productions, a team which has ambitions to lead this rural festival into new pastures, more challenging than the old.

Their own contribution to the season was Tchaikovsky's *Eugene Onegin*, stylishly designed, well sung and played. This was self-evidently an evening of quality, even though some (admittedly a minority) who found it cool and calculated, as I did. Deborah Warner's uncompromising production of *Don Giovanni* divided opinion more violently. The key question for Glyndebourne is how far its core audience will be prepared to support this shift in artistic direction. Seats used to be like gold dust, but not this year. What will happen in 1995, when the new productions are Rossini's *Ernani* and Janáček's *The Makropoulos Case*? Or in 1996 with Handel's rarely-heard oratorio *Theodora* (in the hands of enfant terrible Peter Sellars) and Berg's *Lulu*?

At Covent Garden any action on the rebuilding front remains on hold at the moment. Westminster City Council approved the revised plans for the £100 million redevelopment scheme submitted by the Royal Opera House in June, but that was probably little more than a formality. The phantom of the opera waiting in the wings for the general director, Jeremy Isaacs, is public opinion, which dislikes the



"The Rhinemaidens as fat, flubbery Michelin-girls" - a scene from Richard Jones' controversial production of 'The Ring' at Covent Garden

Alastair Muir

idea of the poor man's National Lottery stake going to pay for the rich man's opera-house.

For the time being, however, morale at the Royal Opera remains fairly high. Nothing brings a company's artistic strategy more clearly into focus than embarking on Wagner's *Ring*. After a couple of false starts in recent years - one staging abandoned, another borrowed - this latest production by Richard Jones looks set to run the course, guaranteeing front page news as it goes its wild way. Either one loves Wotan as a tragic cop and the Rhinemaidens as fat, flubbery, Michelin-girls, or one hates them.

To please its paymasters, the Royal Opera might think of making a gesture towards the UK's balance of payments. A clear trend has emerged this year for in-house productions - like Massenet's frothy *Chérubin* and the recently-televised *La traviata* - to be sturdy examples of British manufacturing, while those imported from overseas have been shoddy goods. Did nobody notice that the Old Testament dust

had settled on Rossini's *Mose in Egitto* before it left Bologna, or that the kiss of death had long since suffocated Toulouse's moribund production of Gounod's *Romeo et Juliette*?

The Royal Opera also hit the headlines when The Hecklers booted the opera as a near sell-out, so "boo" to them instead. In musical terms it has been a good year, especially for the music director, Bernard Haitink, who was praised for his *Ring* and showed himself a tender Jánáček conductor with *Katya Kabanova*. If the redevelopment becomes reality and the Royal Opera House closes in 1997, what will he do? Surely he will not be content to be conductor without portfolio?

One irony is that the arrival of the National Lottery could give us less arts, not more. If English National Opera succeeds in getting the £24m it requires for the refurbishment of the Coliseum, both

London opera-houses could be closed for building work at the same time. Restoring Edwardian grandeur is the aim here: much of the splendour of Frank Matcham's Imperial Roma interior is under a layer of grime at the moment (how many have seen the mosaic floors proclaiming "Salve" inside the entrance?).

The company spirit at ENO will have been buoyed by a rise in attendances to around 78 per cent (up from 60 per cent) since the summer. Having inherited a stock of productions that the Arts Council declared redundant, the new regime has set about renewing the standard repertoire at top speed. Sometimes the haste was obvious. Productions such as *Cost fan tutte* and *Eugene Onegin* sought to offer novelty at the lowest possible dent to the balance sheet and may be replaced themselves in a year or two's time. The disastrous *Jenůfa* will probably not last even that long. Perhaps the

disposable opera production has finally arrived.

Dennis Marks, the general director, will be aware that his successes have been the most professional presentations, like Massenet's long-unseen *Don Quichotte* and Strauss's *Der Rosenkavalier* with old ENO troupe Anne Evans and John Tomlinson lured back from Bayreuth. Musorgsky's five-hour *Khoschtschchina* offered an epic lesson in Russian history to which the party faithful turned up in large numbers. Even Judith Weir's slip of a new opera, *Blind Eckbert*, was reasonably well attended, although Marks looked enviously at the full houses for Birtwistle up the road. If only The Hecklers could have visited ENO too, he opined ruefully.

Scottish Opera is lucky enough to have unveiled its new theatre already. Although the company's base remains in Glasgow, it now has the refurbished 1920s Empire Theatre for its visits to Edinburgh. A highly-praised gala performance of Wagner's *Tristan und Isolde* in June marked the transformation of *The Nightingale and the Rose* and Jonathan Dove's *Stern Song* - were

this bingo hall into an opera house of some style, blessed with excellent sight-lines and lively acoustics - all for a mere £2m out of the corporate sponsor. The canny Scots spend their money wisely.

In artistic terms, more regrettably, there was no profligacy either. The company enjoyed modest successes, such as a pleasing *L'elisir d'amore* and an effective *Peter Grimes*, but Tim Albery's staging of *Fidelio* was the only one to exhibit real flair and ambition. Perhaps surviving at all in the present economic climate is as much as one has a right to expect.

Smaller companies did not enjoy a good year. Opera Factory made a heartrending appeal from the stage for donations, but after their clichéd production of Stravinsky's *The Rake's Progress* and the premiere of Nigel Osborne's incommemorative *Sarajevo*, sympathisers will have put their wallets straight back in their pockets. Almeida Opera's two premieres - Elena Firssova's *The Nightingale and the Rose* and Jonathan Dove's *Stern Song* - were

short and sweet. English Touring Opera kept ticking over with *La Bohème* and Gluck's *Orfeo*. Thebourne Touring Opera, which scored a monster of a hit with *Bartók's King Kong*, *Opera*, *One and Mrs Keating*.

Round the rest of the country opera managers were deserting ship. Ian Ritchie had barely been with Opera North for a year before he was packing his bags, apparently oblivious that he was running the only opera company not moving to a new theatre. From its base in Leeds, Opera North continues to seek out the operas that nobody else dares to play. This season included a creditable attempt to resurrect Chabrier's seductive *Le Roi malgré lui*, a newly-discovered version of Puccini's *La rondine* and Verdi's first opera, *Oberto*, produced by John Tomlinson, laying aside his Wagnerian spear. In addition, the company scored a popular goal with Benedict Mason's footballing opera, *Playing Around*, when it arrived back at its home ground after the premiere at the Munich Biennale. Opera North remains at the top of the "Adventurousness" league.

Matthew Epstein lasted longer at the head of Welsh National Opera - three years out of his contracted five.

Blaming cuts in subsidies, he left no doubt as to the reason for his departure, adding ominously as he went that he hoped "WNO will be strong enough to move into [its new theatre]". The plan in Wales is for a wholly new theatre in the Cardiff Bay development area, financed with a grant from the Millennium Fund. At a cost of around £45m the company hopes to have a striking "glass necklace" building that will become a local landmark, like the opera house in Sydney. With a bit of luck it might be suitable for opera, too.

Epstein's talent-spotting eye was doubtless responsible for finding some of WNO's promising young singers during the year, but there have also been interesting productions, like the provocative *Turandot* and a heavenly staging of Berlioz's *Béatrice et Bénédict*, produced by Elijah Moebius. I have left this until last, because it was the most outstanding opera performance in Britain this year, near to perfection in every way. An evening like that leaves one full of optimism for a future which sees our opera companies installed in fantastic, state-of-the-art theatres. If any of them fails to get the money, they could always try buying a ticket for the National Lottery.

## London's concertgoers spoiled for choice

Times may be tough and tastes changing, but the city's music remains healthy, says David Murray

The London concert scene was neither noticeably richer or poorer this year than before, which is to say, it has still been pretty rich. Shrunken state support has not diminished the variety of the "big five" orchestras' programmes (I count the BBC Symphony among them, as one must). For every plain, undisguised money-spinner on this year's menu, you could find two or three in the South Bank brochure, for say, 1985 or 1970.

Which is only to remark the notion of a "money-spinning" concert is elusive. A quarter-century back, Beethoven's Third, Fifth and Ninth Symphonies, Tchaikovsky's Fifth and Sixth and two Rachmaninov piano concerti were supposed to be surefire draws, almost as safe as the "1812" Overture with fireworks laid on. None of them now guarantees even a full-house, not without a renowned conductor. The ageing audience for the traditional middle-brow favourites has become unreliable -

or, perhaps, just experienced enough to turn choosy.

The only sure successes are (a) operas in concert form with famous singers, (b) some performances of not-too-unfamiliar works - a much broader category than it used to be - by very big-name conductors, and (c) just once in a while, some especially ambitious pieces (massive, or inordinately long or fabulously complicated) by a currently trendy composer. Any of those latter is difficult to plan with confidence.

Yet the average numbers for concert evenings remain healthy enough: down a bit while the perceived recession continues, but not more so than the paying audiences for other arts. Despite the fearful internece competition between them none of the

major London orchestras has collapsed yet, nor abandoned the capital for hand-to-mouth life in the provinces (though they complain that every London concert costs them money). These days, opera commands many more column-inches in the press than non-operatic music, but audiences for the latter, night by night, are *in toto* larger by far.

We are admittedly short of great conductors. (So is everybody.) The departures of Giuseppe Sinopoli from the Philharmonia and Franz Welser-Möst from the London Philharmonic have not incurred widespread grief, though they both had their moments. The great Klaus Tennstedt, whose LPO concerts these past years have been regularly announced, sold out and then relegated to a substitute

or cancelled, has finally thrown in the towel. The loss to the London Symphony of Michael Tilson Thomas - at the gain of Colin Davis - we can bear without pain: the Tilson Thomas career needed a move to America at this stage, and will no doubt benefit by it.

The Royal Philharmonic continues to rotate any number of conductors, but can still rise beautifully to an occasion.

**A**re so many orchestras a crazy London luxury? Well: not as long as they survive. For one thing, the notoriously scant rehearsals that they often get might not be improved in the least if they were fewer. Nor could we expect them if they took to the Continental and American rou-

time of repeating every concert several times in a week, to risk as many bold programmes as they do.

The fashion for mini-festivals has somewhat declined. This year the main ones have been Rostropovich's Schmittie spectacles at the Barbican, the South Bank's celebration of Luciano Berio, and Tilson Thomas's continuing Mahler cycle with the LPO; but nothing so unexpected and enlightening as the Barbican's recent "Tender is the North" prospectus of Scandinavian music, let alone the exhaustive South Bank forays into Stravinsky, Webern and Roberto Gerhard longer ago.

Though that is perhaps no more than happenstance, it may reflect their promoters' concern that there is no longer a "special" audience for any-

thing too special. Nobody can count upon younger ears eagerly zeroing into music they want to know more about, because they come from too many different places. There is no regular place appointed to classical music in British schools now, unlike those of virtually every European country. To be prompted toward knowing more of it you have to be lucky in your local education, or divine extra possibilities in pop and rock and popular minimalism, or be moved by fashionable meditators like Arvo Pärt and John Tavener.

It is left to the Wigmore Hall to sustain crusty, dependable old music-lovers. Chamber music, and piano and song recitals, sound better there than almost anywhere (except when the artists' ears have been spoilt by playing too

much in grander venues). The Queen Elizabeth Hall, much improved by narrowing the available space for a more intimate audience, remains nevertheless too large for immediate communication - though Richard Goode's inspired, ongoing Beethoven piano-cycle goes a long way toward refuting that charge. The Wigmore remains the place to hear *Dichterliebe*, *Winterreise* or *Die schöne Müllerin*, the Beethoven quartets or Bartók's or the Schubert trios; and its best artists are invariably sold out.

We have little room for complaint. Besides the many Wigmore series (which do need advance booking) and the mini-festivals in the larger halls, there have been plenty of rewarding one-offs this year - Maxwell Davies's little new Fifth Symphony, and Boulez's

produced by Winfried Bauernfeind at 7 pm; Jan 10  
Staatsoper Unter den Linden Tel: (030) 2 00 4762  
● Die Zauberflöte by Mozart.  
Conductor Daniel Barenboim, production by August Everding at 7 pm; Jan 1, 4, 7

### ■ LONDON

#### CONCERTS

Barbican Tel: (071) 638 8891  
● LSO New Year Viennese Concerts: conducted by John Georgiadis, the music of Strauss in a celebration of the New Year at 7.30 pm; Dec 31; Jan 1, 2

● Royal Philharmonic Orchestra: conducted by Bramwell Tovey plays Mendelssohn, Handel, Bruch and Beethoven at 8 pm; Jan 7

Festival Hall Tel: (071) 928 8800

● Johann Strauss Galas: the Johann Strauss Orchestra with director John Bradbury, soprano Marilyn Hill-Smith and the Johann Strauss Dancers plays a programme of music by Strauss. First performance at 3.15 pm, then at 7.30 pm; Jan 1

GALLERIES

Hayward Tel: (071) 261 0127  
● The Romantic Spirit in Romantic Art 1790-1990: examines work of early Romantic painters. Includes a section on German Expressionists; to Jan 8

Tate Tel: (071) 887 8000

● James McNeill Whistler: major survey of the Victorian painter and designer; to Jan 8

OPERA/BALLET

Festival Hall Tel: (071) 928 8800

● Der Rosenkavalier: by Strauss. Conductor Jef Kout, production by Götz Friedrich at 6 pm; Dec 31 (5.30 pm); Jan 5

● Zar und Zimmermann: by Lortzing. Conducted by Hans Hinsdorf,

Orchestra choreographed by Ben Stevenson at 7.30 pm; to Jan 2 (Not Sun)  
Royal Opera House Tel: (071) 340 4000

● Cinderella: music by Prokofiev. Created by Frederick Ashton in 1948, this was the first full-length ballet by an English choreographer at 7.30 pm; Dec 30, 31; Jan 3

● Swan Lake: by Tchaikovsky. Choreographed by Marius Petipa and Lev Ivanov, production by Anthony Dowell at 7.30 pm; Jan 5

● The Sleeping Beauty: a new production of Tchaikovsky's ballet. Produced by Anthony Dowell, set designed by Maria Björnson at 7.30 pm; Jan 4 (2 pm)

THEATRE

National, Lyttelton Tel: (071) 928 2252

● Out of a House Walked a Man: by David Harens. A Royal National Theatre and Théâtre de Complicité co-production of a collection of musical scenes by the Russian absurdist writer at 7.30 pm; Dec 31; Jan 5 (2.15 pm)

● The Children's Hour: by Lillian Hellman, directed by Howard Davies at 7.30 pm; Dec 30, 31 (2.15 pm); Jan 2, 9 (2.15 pm)

Queen Elizabeth Hall Tel: (071) 928 8800

● Cinderella: by Rossini. The Music Theatre London present this new translation by conductor and musical arranger Tony Britten, and director Nicholas Broadhurst at 7.30 pm; to Jan 3 (Not Sun)

THEATRE

Manhattan Theatre Club Tel: (212) 581 1212

● Love! Valour! Compassion!: latest play by Terence McNally (of *Kiss of the Spiderwoman* fame), directed by

Joe Mantello. Sun. performance at 7pm otherwise at 8 pm; to Jan 1 (Not Mon)

Richard Rodgers Theatre Tel: (212) 307 4100

● A Christmas Carol: engaging one man show of the classic with Patrick Stewart at 8 pm; to Jan 6

### ■ PARIS

#### GALLERIES

Grand Palais Tel: (1) 44 13 17 17

● Gustave Caillebotte: retrospective of the painter who belonged to the circle of impressionists; to Jan 9

● Poussin: 400th anniversary retrospective to Jan 2

Musée d'Orsay Tel: (1) 45 49 11 11

● Forgotten Treasures from Cairo: a rich collection of works by Ingres, Courbet, Monet, Rodin, Gauguin and others; to Jan 9 (Not Mon)

#### OPERA/BALLET

Metropolitan Tel: (212) 362 6000



## FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL  
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700  
Friday December 30 1994

### Regulating derivatives

Even by the standards of today's unstable markets, 1994 will go down as a year of unusual financial turbulence. Such has been the political fall-out in the US that a powerful regulatory response is inescapable, carrying with it the risk of over-reaction. Nowhere is this more true than with derivative financial instruments such as swaps, forwards and options, which have prompted feverish anxiety on Capitol Hill.

A sense of perspective is badly needed. At the risk of stating the obvious, derivative instruments have not, despite the fiendish qualities attributed to them, seriously threatened the stability of any banking system in the developed world this year. The biggest loss incurred in the markets - \$1bn by Orange County in California - stemmed less from dealing in derivatives than from the use of sale and repurchase agreements in the bond markets. This was one of several examples of leveraged dealing where fund managers borrowed to increase returns, only to find that leverage can magnify losses as well as profits.

With Procter & Gamble and other end-users of derivatives, losses have highlighted potential conflicts of interest in the role of the banks. But it is not the task of central bank regulators to protect large industrial companies from their bankers or to monitor corporate governance arrangements. So what should their priorities be?

The precise extent of the systematic threat is hotly debated. What is beyond dispute is that while derivatives have great potential to increase capital market efficiency, the gap between individual firms' knowledge of their dealing and risk management practices, and the information available to outsiders, has sharply increased. Risks on and off the balance sheet can change hourly in a business that is increasingly conducted in over-the-counter (OTC) markets rather than organised exchanges.

#### Lack of transparency

The resulting lack of transparency is such that risk may be mispriced, while uncertainty over a bank's exposures could lead to a run on deposits. The threat of contagion within the financial system is highly concentrated: in the derivative markets in the US 10 banks account for more than 90 per cent of credit exposures. Most important, banking supervision simply cannot keep abreast of the quick-fire changes in the risks that commercial banks now run in the normal course of business.

### Corruption has no frontiers

For anyone who still believed that corruption was primarily a problem of the developing world, and not the developed, the exposés of the past year should have provided a belated awakening. Scandals ranging from petty "steal" to substantial bribery have broken out across the globe, from Japan in the east, through Britain, France, Italy and the former communist states in Europe, to the US, Brazil and Mexico in the west. It is clear that bribery and corruption know no frontiers.

The rash of cases raises three questions: is the problem getting worse, in spite of the trend towards market economies, open trade, and deregulation? Is it a problem that needs to be controlled with new rules, or will such measures merely create new opportunities for corruption? And if more controls are needed, what effective steps can be taken?

It is tempting to be cynical about the issue. Corruption has always existed, wherever power exists. On occasion it may arguably be beneficial: where a modest bribe can circumvent excessive and onerous regulations, it may oil the wheels of economic activity. Or a bribe may simply redistribute the profit of a transaction from a government to individuals, then the state is the only loser.

Where governments are excessively regulators, where they have imposed penal tariffs on trade, or where they have fixed unrealistically exchange rates, they deserve to be punished by such subversion. The real solution is to reduce the bureaucracy and scrap the bad rules, not to encourage corruption by writing more.

#### Economic distortions

The danger of the spread of bribes is that in the first place, they distort rational economic decision making; and secondly, that they undermine the legitimacy of the administration, instead of the entire political system which allows them to take place. Economic distortions may be difficult to identify. But loss of

This is a powerful argument for moving to a two-tier banking system in which the safety net of deposit insurance is denied to the commercial banks' derivatives trading activity. It also highlights the importance of a rapid move towards real-time gross settlement to reduce the risk that the failure of a counterparty will disrupt the whole payments system.

#### Market fluctuations

The Bank for International Settlements (BIS) is amending its capital regime, currently directed exclusively at credit risk, to cope with the impact of market fluctuations. Yet capital is probably a less effective defence against trouble than a sound approach to risk management. On this score a recent BIS discussion paper has urged public disclosure of banks' internal risk management systems, a proposal promptly taken up by J.P.Morgan.

A more radical suggestion, made by David Folkerts-Landau and Alfred Steinberg in a recent American Express Bank prize essay, is that the regulators should seek to divert business away from OTC markets into a formal exchange clearing house structure. This would have the advantage of greater transparency and liquidity, together with the discipline of collateral requirements that are tougher than a conventional capital adequacy regime.

Critics of this approach argue that it ignores the efficiency of private-sector decisions in this area and that a majority of business is done in OTC markets for good reason: customised contracts provide flexibility. The big banks also fear the loss of the competitive advantage that they derive from high credit ratings. Yet the Amex authors claim that a majority of OTC contracts are little different from standardised exchange traded products. Moreover, the current capital adequacy regime contains a bias in favour of OTC dealing. The private sector also faces high costs in setting up a clearing house, where the returns on the investment are partly social and public.

In the present fiscal climate few governments will look favourably on subsidies for clearing arrangements. Yet they have good reason to look at the case for a more level playing field between OTC and exchange-traded derivatives, not least because financial stability is an important public good. That is why increasing the transparency of the derivatives markets should be a high priority in any reform of the regulatory framework.

But the political drama came with

Mr Tony Blair has cause for satisfaction and for consternation. Labour has an unprecedented lead in opinion polls. His own ratings are higher than any achieved by the leader of the opposition in recent memory.

But his party is unprepared: expert in the skills of opposition, so far it has offered only a shallow programme for government. Mr Blair's firmest policy commitment - to radical constitutional reform - is fraught with political dangers.

Let's start, though, with the satisfaction. It would be churlish to deny Mr Blair his plaudits. He has led Labour for less than six months. In that short time he has transformed the mood. He has begun to reposition the party in the public's consciousness as value-based rather than class-based. He has shown an appreciation of strategy as well as tactics. He is a politician who means what he says.

His admirers are not confined to friends among the Islington intelligentsia. Every opinion poll since his election in July has underlined the appeal of this 41-year-old former public schoolboy to the aspirant working classes who deserted Labour for Mrs Margaret Thatcher in the 1980s. And the middle classes of southern England now have a leader of the opposition whom they can call One of Us. The electoral "fear factor" which has haunted Labour since 1979 is dissipating.

Mr Blair has performed well in the theatre of politics. During his twice-weekly dials with Mr John Major in the House of Commons, he has added a touch of gravitas to the boyish good looks. He has missed one or two opportunities, but has not made any serious mistakes. He has portrayed the Conservatives as terminally divided and out of touch. In so far as the government has needed assistance in persuading voters of the veracity of the charge, Mr Blair has provided it.

It is not simply style and image, although Mr Blair is as conscious as any politician of his public relations. He has pointed Labour in a different direction. His embrace of the "dynamic market economy" was unremarkable to those long acquainted with the realities of global competition. But within his own party it marked a decisive step forward, even from the "modernist" policies presented at the 1992 general election.

When Mr Kenneth Clarke, the chancellor, raised interest rates in September, Mr Blair eschewed the reflex, undiluted condemnation. Instead, he offered a more subtle message. Mr Clarke was right in his own terms to pre-empt an upsurge in inflation. But what an indictment of Tory policies, said Mr Blair, that the economy risked overheating with 2.5 million people unemployed.

Mr Blair's attitude towards the welfare state has revealed a similar shift. He did not endorse without qualification the report of the independent Social Justice Commission, established by his predecessor, the late Mr John Smith. But he embraced its central themes: that universal provision of benefits cannot be open-ended, that getting people back into work takes priority over handing out more in benefits.

There have been other changes. Labour's policy towards Northern Ireland has caught up with the principle of majority consent for any political settlement. Even before the row over his choice of a grammar school for his own son, Mr Blair had begun to detach Labour from the politically correct agenda of the teaching unions. But the political drama came with

Tony Blair, UK opposition leader, has done well, but has not yet proved Labour is ready to govern, says Philip Stephens



Tony Blair: his firmest policy commitment - to radical constitutional reform - is fraught with political dangers

Mr Blair's announcement at Labour's autumn conference that the party must drop its most sacred shibboleth: Clause IV of its constitution, enshrining a commitment to common ownership of the means of production and distribution.

The pledge has been irrelevant almost from the day it was penned by Sidney Webb in 1917. No Labour leader has ever suggested the state should run Britain's corner shops. But Clause IV has been the stan-

The glue holding together the strands in Mr Blair's strategy is a message: Labour must rediscover its ambitions, not fight about the means of delivering them

But now for the consternation.

Acknowledging that Mr Blair has done well is not the same as describing Labour as a government-in-waiting. Even after 15 years in the wilderness, the forces of inertia run deep. So does the reflex suspicion of party activists that the leadership is set on betrayal. At Westminster - in the shadow cabinet as well as on the backbenches - there are many who want Mr Blair simply to wait for the Conservatives to deliver him victory.

But there is no absolute guarantee that the Tories will not rediscover their senses, that the economic upturn will not translate into a political recovery. In any event, winning an election is not the same as being ready to govern. Mr Blair seems to understand that. So, in his

own way, does Mr John Prescott, the traditionalist deputy leader of the Labour party, whose support so far for the process of modernisation has been vital. Many of their colleagues do not.

The quality of the shadow cabinet is uneven. There is a handful of thinkers. They are counterbalanced by a group of indifferent, often lazy politicians who see their role as denouncing the government. Then there is a third group which tends

**Voters may wonder why devolution should take precedence over better health and education services**

to drift with the tide, offering grudging assent to the leadership but little conviction and less action.

Mr Blair has provided policy signposts: the party is no longer intent on increasing the tax burden, it is in favour of public/private sector partnerships, it is no longer hostile to allowing schools more independence. But signposts do not add up to a persuasive strategy. What is missing is not simply detail - at times Labour has been overly obsessed with the minutiae - but a sense that it has formulated policies across the range of issues which fit together as a coherent programme.

There are contradictions. Its

economic strategy promises to eschew crude demand management and to maintain a target for low inflation. But it offers also a target for growth. It does not explain which economic levers it will use to meet the growth target, or how it will respond to the inevitable conflicts between the two objectives.

It is the same with taxation. The increases imposed by the Conservatives are roundly condemned, not just because they represent broken promises but because of the additional burden on ordinary families. Yet any pre-election reversal of the increases has been condemned in advance as no more than a bribe. The voters will ask if Mr Blair thinks the tax burden is too high, is about right or is too low. They might also ask whether his party agrees with its leader.

Then there is Europe. Few doubt that Mr Blair, who wants to take his party into the social democratic mainstream of its Continental counterparts, is serious about a commitment to keeping Britain in the European Union's first division. But a reflex embrace for the social chapter and a hedged commitment to joining a single currency do not add up to a European policy.

**T**here is an exception to the general vagueness. In one policy area - constitutional reform - Mr Blair has given an irrevocable pledge to legislate immediately after the election for a parliament for Scotland and an assembly for Wales. The judgment of some allies in the senior ranks of the party who want much greater clarity elsewhere is that here the new leader has made a serious mistake.

The Conservatives will make preservation of the union a central issue in the election campaign. English voters may see devolution in Scotland as the first step towards independence. That could cost Labour precious votes in Tory-held north and north-west.

And if Labour won the election,

its first administration since 1979 could become bogged down from the outset in a bitter constitutional battle. Dozens of his own MPs might rebel. Those with longer memories than Mr Blair need no reminding that it was a battle over devolution that crippled the last Labour government.

Mr Blair defends the commitment, arguing that greater democracy is essential to restore the electorate's faith in Britain's institutions and in its political leaders. The voters will be forgiven for wondering why devolution should take precedence over better health and education services

More generally, Mr Blair insists he is pacing himself ahead of an election that may not take place before mid-1997. His first six months were occupied with setting out the guiding principles for policy. The next few months will be taken up with winning the battle over Clause IV. Then will be the time to start formulating the "flagship policies" on which Labour will base its programme for government.

Mr Blair is fond of reminding

those who doubt his determination that, since becoming leader, he has not given in on a single policy issue. He promises a simple statement of values to replace Clause IV which will cement the trust of the electorate in new Labour. He cannot afford to make compromises with his party's traditionalists. Nor can he afford to resist much longer the pressure to produce clear and practical policies to sit alongside the principles.

## Every picture tells a story

Paul Taylor on the CD-Rom revolution in computing

**T**he CD-Rom disc is beginning to transform the home personal computer market in much the way that its cousin, the digital compact disc, has come to dominate the music business.

Their vast storage capacity - a CD-Rom disc can store about 650 megabytes of data, equivalent to 450 ordinary 3½" floppy discs - makes them ideally suited for multimedia, the combination of digital text, video, still and moving images and sound. And a CD-Rom disc costs just pence to make.

Multimedia machines with a CD-Rom drive, high-quality sound card, fast graphics and powerful microprocessors are leading the assault on the consumer market.

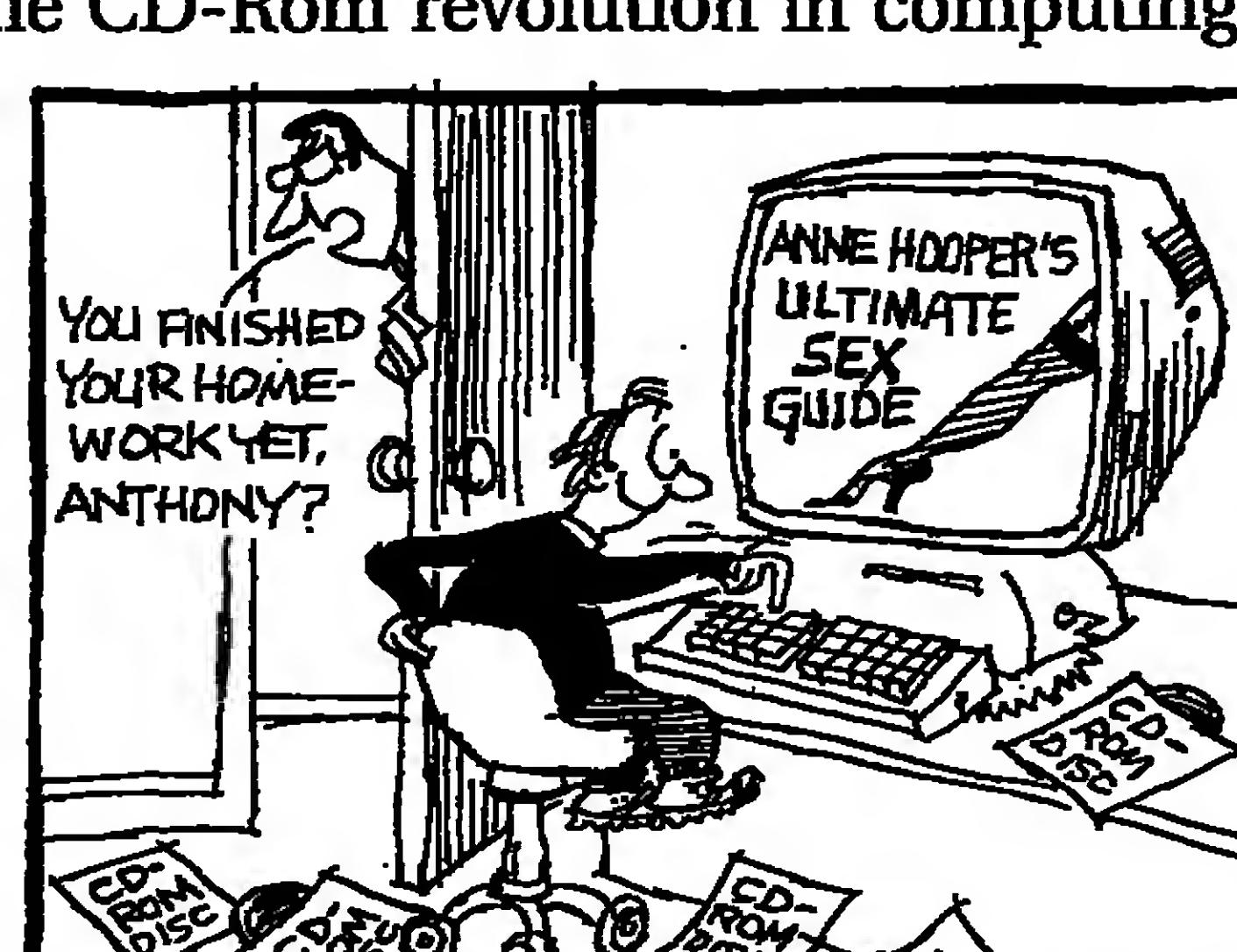
Tumbling hardware prices have put multimedia PCs within the reach of most home PC buyers. As a result PCs equipped for multimedia have been among the hottest selling items this Christmas.

According to IDC, the market research firm, about one in five PCs in Europe includes a CD-Rom drive and growth is accelerating. "The CD-Rom market in Europe started exploding in the second half of 1993," says IDC, which estimates 4.5m CD-Rom drives will have been sold in Europe this year, up from 1.6m in 1992.

The surge in CD-Rom drive sales has coincided with an explosion in the range of reference, entertainment and games titles available in CD-Rom format, and a dramatic improvement in software quality.

In the early days of CD-Rom much of the software was criticised for being slow and unattractive. But innovations, such as the introduction of faster double-spin speed drives and higher-quality sound cards, have encouraged publishers, including Microsoft and Dorling Kindersley, to be more imaginative.

Today there are thousands of discs available with prices ranging from less than £10 to several hundreds of pounds - or even thousands. But most software aimed at



quotations, or simply browsing. Dorling Kindersley's other CD-Roms are also aimed at a younger audience, and include *The Way Things Work* and *Incredible Cross-Sections* which provides a fascinating multimedia tour of an 18th century man-of-war ship. *The Ultimate Human Body* features three-dimensional images, detailed micro-photography, animation and sounds and includes an interactive journey through the human body to discover what every part is called, where it is situated, what it looks like and how it functions.

For a younger audience, *My First Incredible Amazing Dictionary* targets children aged four to seven, including those who cannot yet read or have never used a computer. This CD-Rom presents 1,000 words in context so children can see and hear how they are used in speech and writing.

For older词smiths *The Oxford English Dictionary* is impressive on CD-Rom, with over 24m illustrative

interactive animated story-book based on the children's film *Anne Hooper's Cinemania*. And Microsoft's *Cinemania '95* is acknowledged as the definitive multimedia film guide.

There is a wide range of CD-Rom titles covering the art world, including *Cameron's Fine Art*, 450 works from leading artists and photographers; *Renaissance Masters*, a two-disc series with 1,300 images on each title; and *Exploring Modern Art*, a tour of the Tate Gallery conducted by the senior curator.

**S**erious Music buffs may be interested in CD-Roms covering the lives and works of great composers, which try to make the most of the CD-Rom's multimedia capabilities by combining music with analysis of the works and the composer's life. Among these are *Beethoven's 5th*, *Mozart: The Dissonant Quintet* and *Stravinsky: The Rite of Spring*.

For pop fans, *David Bowie's* weird world while Peter Gabriel has produced an extraordinary CD-Rom featuring his music called *Xplora 1*.

Meanwhile Microsoft's *Bookshelf 1994* includes the latest editions of seven - mostly US - reference works including word dictionary, dictionary of quotations, encyclopedias and atlas.

Microsoft's rapidly expanding library of home multimedia titles also includes *Ancient Lands* and *Microsoft Dinosaurs*, which provides a tour of prehistoric life, and *Prehistoricia*, originated by Software Toolworks, which was acquired this year by the Pearson Group, owner of the Financial Times, and renamed *Mindscape*.

Other "edutainment" CD-Roms for children include *Interactive Storytime*, also originated by Software Toolworks - three discs of interactive stories for children. In the US the hottest children's CD-Rom this Christmas is probably Disney's recently released *Lion King*, an

In a non-descript three-bedroom apartment in north-west London a traditional Saudi meat stew simmers on the kitchen stove, as Mr Mohammed al-Masaari, dressed in a white caftan, stands over a row of modems.

This is the headquarters in-exile of the Committee for the Defence of Legitimate Rights in Saudi Arabia, an organisation that every Tuesday spends 10 hours sending 800 faxes to Saudi Arabia and 200 to other embassies and press centres.

Mr al-Masaari, a physics professor turned Saudi dissident, and his partner, Mr Saad al-Faqih, a surgeon, were jailed for launching the CDLR - which advocates greater government accountability and stronger adherence to Islamic values - in Saudi Arabia in 1993. On their release, they fled to London, applied for political asylum and went shopping - for fax machines, modems, computers and a copier.

For the past eight months, they have bombarded Saudi government offices, businesses and universities with faxes. "We send faxes to the king himself and his defence ministers," says Mr al-Faqih. "We have their private numbers," he adds, with the glee of the computer hacker who has beaten the system.

The faxes they send are libelous inventories of alleged incompetencies and corruption, spiced with accusations of sexual perversions. Typical are remarks such as "prince X is fond of flogging people in his office. Sordidly he often uses shoes on his victims" or "X leads a group of sexual deviants who have terrorised the people of the province".

Last week's fax carried a warning that a leading hotel owned by the Treasury department had installed hidden cameras to record the guests' very intimate moments with the intention of blackmail.

The CDLR's own fax machines, meanwhile, receive a barrage of grievances, sometimes factual, sometimes fictional, from reporters in the kingdom. Drawing such complaints has required ingenuity - in the form of telephone lines that allow Saudis to call without being traced.

"We had two limitations," says Mr al-Faqih. "US telecommunications operators, such as MCI, AT&T and Sprint, do not have facilities to connect Saudi Arabia with the rest

## The fax war

**Roula Khalaf and Mark Nicholson on a high-tech challenge in Saudi Arabia**

of the world, and people do not have calling cards in Saudi Arabia."

The CDLR solution has been a toll-free number, which connects callers, via MCI, AT&T or Sprint, to a number in the US. That Washington DC call is then forwarded to the CDLR in London by a local telecoms carrier. The CDLR has also purchased two calling-card numbers, issued by AT&T and MCI, that can be used only to dial its London offices, and disseminated the numbers throughout the kingdom. The itemised bills for all these calls are seen only by the CDLR.

### The faxes are libellous inventories of alleged Saudi corruption

For the sophisticated user, the CDLR promises a newsletter will soon be available via E-mail. Mr al-Faqih says he is also negotiating with several US companies for a contract to fax the newsletter on the CDLR's behalf. He says he has received an offer from a US company to fax the newsletter which would reduce by half his monthly costs of £30,000 (financed by Islamic supporters within the kingdom).

Even without such advances, the CDLR fax has presented a growing nuisance to a sensitive government. Saudi rulers, when they comment at all on the CDLR, adopt an air of haughty dismissiveness: "They are nutcases," a prince said. "These faxes don't represent any increase in the kingdom for their point of view." Nevertheless, members of the ruling family find them irksome. "The government is used to

controlling information sources. A team of censors pens sits daily in an office in the Saudi information ministry ripping offending pages out of foreign newspapers, blackening news pictures, or striking out with a giant black X any advert for alcohol. The royal family has also tried to prevent uncontrolled satellite TV broadcasts in the kingdom.

In a land where media sources are purged of anything deemed un-Islamic, anti-Saudi, critical of the rulers or even just saucy, the faxes make popular and gripping reading.

And the Saudi government is disconcerted by their political effect, although officials claim that the problem is not that the faxes are galvanising an anti-government mobilisation, but that they are damaging people's view of the kingdom.

The faxes are also demonstrating the paucity of Saudi Arabia's information policies.

Many of the faxes are sent to western journalists, who, starved of other information about Saudi politics, have given their allegations play.

For such journalists, there is no one in the kingdom who can be contacted for an official rebuttal, or to put another side.

Some of the princes admit that the government has found no satisfactory way of responding to the publicity that was created.

Last month, the Saudi government offered visas to about a dozen western reporters in an attempt to redress this problem. But this new openness did not seem to have percolated far into the Saudi bureaucracy. After a fruitless 45-minute interview, one FT correspondent's Saudi minder helpfully explained, about the senior official in question "he doesn't really like talking to journalists, so we are not going to tell you anything".

Another Saudi response has been to urge the British government to get rid of the troubleshooter Mr al-Masaari and his London fax HQ - a topic that was high on the agenda of prime minister John Major's recent talks in the kingdom.

Mr al-Masaari's request for political asylum in Britain was refused last month, though he is now appealing. But being forced to leave the UK is unlikely to force him to abandon his modems.

The CDLR may long for the pure Islamic state of the 8th century, but it has embraced the telecommunications revolution of the 20th century. Mr Al-Faqih says: "Khammam's recent talk in the kingdom for their point of view. Nevertheless, members of the ruling family find them irksome. The government is used to

Four years ago, the Treuhand, Germany's privatisation agency, vowed to complete its operations by the end of 1994. Mrs Birgit Breuel, the agency's combative head, is proud that the organisation, the world's largest holding company, will keep its promise and cease operations on December 31.

"We stuck to our mandate.

There was no other alternative," she says.

Mrs Breuel, who joined the Treuhand in October 1990, succeeded its first head, Mr Detlev Rohwedder, in April 1991 after he was murdered by unknown assassins. The agency had been set up in March 1990 to privatisate the state-run economy of former communist East Germany.

Treuhand's small staff of west German industrial managers had no idea of the scale of the task or how much it would cost. The agency had no reliable accounts or balance sheets for the Kombinate, the giant state-owned enterprises that it started dismantling in late 1990.

Once figures were available, the magnitude of the problems became apparent. The Treuhand had 18,781 industrial enterprises on its books, plus 10,651 small shops and other service businesses. It employed about 4m people, 3.8m of them industrial workers.

In the past 36 months, the Treuhand has quickly privatised the retail outlets of the industrial enterprises, 3,527 have been closed. Almost all the rest have been sold, 2,679 to management buy-outs, 855 to foreign investors and the rest to west German investors.

In all, the Treuhand has

attracted investment commitments of about DM206bn (£95bn) and earned DM54.9bn from sales.

The remaining 100 companies will be placed under so-called Management KGs run by west German managers with the aim of preparing them for privatisation.

Impressive though this record is, the Treuhand has

been the subject of acute criticism in both parts of Germany.

One cause is its cost. Privatisation receipts from east Germany were once optimistically expected to yield as much as DM600bn for the finance ministry. Instead,

the Treuhand will have run up debts of DM270bn, of which DM160bn has been spent on restructuring companies and subsidising jobs.

When the Treuhand decided

to save some sections of the

industrial/manufacturing base,

it did so at enormous expense

### Treuhand: the big sell



Birgit Breuel, Treuhand president

Number of enterprises	Investment commitment (DM)	Number of job guarantees	Present value (DM)	
			Denmark	Others
26	545	3,198	338	
89	5,944	25,422	1,447	
124	2,885	18,985	1,183	
35	702	4,897	326	
10	1,940	16,955	35	
32	1,076	22,705	278	
96	1,181	10,577	394	
100	1,016	16,923	456	
133	1,191	18,974	1,078	
177	2,065	13,275	390	
145	2,055	21,796	626	
385	2,498	100,567		

Sources: Treuhand

## The end of the line

As the Treuhand winds up, Judy Dempsey looks at its record

and Mr Otto Schily, head of the parliamentary investigation committee set up to scrutinise the Treuhand, has accused the agency of making decisions behind closed doors.

In particular, of selling companies too cheaply to managers who wanted only to pick up the subsidies or the property.

"We were open at all times," says Mrs Breuel, adding that negotiations are never carried out in the public domain.

The agency's record is also being criticised. Six out of 10 employees at Treuhand enterprises lost their jobs. The Treuhand had secured job guarantees for just 15m workers, only 7000 in the manufacturing sector.

IG Metall, the steel and engineering trade union, and the governments of the five east German states believe the Treuhand closed large sections of industry hindered the growth of the Mittelstand, small and medium-sized enterprises.

"The Treuhand's policies virtually destroyed the region's industrial base," says Mr Karl Rohring, an official of the union's Berlin-Brandenburg branch.

"The Mittelstand depends on an industrial base. East Germany cannot live off services alone. It will never become a self-sustaining economy without industry."

IG Metall also attacks what it describes as the absence of an economic strategy to help the newly privatised companies survive.

"That was up to the politicians," says Mrs Breuel. "That had nothing to do with our mandate."

As the Treuhand prepares to end its operations, however, its pace and methods continue to evoke as much admiration as criticism.

"I have spoken to people who have done mergers and acquisitions, and they said you needed about 10 years for this kind of work. They are truly surprised at what the Treuhand achieved," says Mr Horst Siebert, head of the Institute

for World Economy at Kiel University.

The agency has had to cope, for example, with obstruction from east German factory managers, many of them former communists opposed to privatisation.

They feared for their jobs if the true financial condition of their enterprises were discovered.

"I remember when I was carrying out an inventory of the enterprise, one of the department heads, a former member of the Stasi [east Germany's secret police] simply refused to hand over some records," says one US consultant. "In the end, he locked me into a small room and allowed me to look at the books. I was not allowed to take them away."

More fundamentally, there was no precedent for privatising an entire economy, particularly when monetary union between the two Germanys had made the east's exports uncompetitive in its core markets of eastern Europe.

Mr Breuel recalls the early days as "truly extraordinary times. After starting from virtually nothing, we built up a network of experts and a financial picture of the enterprises."

And despite the criticisms, few economists believe there was an alternative to the way the Treuhand operated.

"I looked at how some of the east European countries were introducing the voucher system in which ordinary people could trade in their shares," says Mr Siebert. "But in the case of east Germany, there was no precedent for privatising an entire economy, particularly when monetary union between the two Germanys had made the east's exports uncompetitive in its core markets of eastern Europe.

Despite these more optimistic signs of growth, Mrs Breuel declines to speculate what the east German economy will look like in 10 years. "I am no Delphi. But I have no doubt that the kind of management skills we have bought and investment decisions we have made will bear fruit."

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL  
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Need to achieve a better balance in social policy in Europe and the UK

From Mr Robbie Gilbert,

Sir, Mr Peter Cooke (Letters, December 29), maintains that "the economic value of EU membership should be shared partly in the form of improved social benefits for workers where those can be delivered without prejudicing competitiveness". Few would argue with that. But the problem with many of the social measures brought forward by the European Commission - including the European works council directive - is that they do compromise competitiveness, and at a time when Europe's share of world trade is falling. Unemployment, particularly long-term unemployment, has been worse as a result.

The problem is that social policy has been too much concerned with the rights of those in employment and too little directed towards what would help the 20m out of work in the EU find jobs. The result has been both inflexibility in labour markets and high social costs for every person employed across much of Europe.

That undermines competitiveness and the creation of jobs. Employers are well aware of this, but it is also being recognised now by other objective observers, notably the OECD in its recent jobs study.

It was an inevitable consequence of the general approach of harmonising social provisions at the most generous - and therefore the costiest and most restrictive - level applying anywhere in Europe. The

action of British Industry's concerns that Germany's unit labour costs are reducing at the same time as the UK's are again beginning to increase.

It would seem that the current policy of resisting the legal protection of employee rights is no guarantee of maintaining comparatively low unit labour costs, even when the comparison is with Germany, the European country where those rights are most entrenched.

Robin Peeler, executive director, European Centre for Public Affairs, Templeton College, Oxford OX1 5NY

From Mr Chris Pond,

Sir, Your call for a debate over worker rights is welcome ("Time to debate worker rights", December 22). The UK is almost the least-regulated of the OECD economies, without legal pay protection, limits to working hours or a statutory right to paid holidays. Yet recent evidence provided by both the European Commission and the employment department has demonstrated that the deregulation strategy has not created significant numbers of new jobs.

Indeed, the UK's record of job creation is rather poorer over the medium term than that of other economies with far higher levels of social and employment protection.

Employment secretary Michael Portillo's decision earlier this month to opt out of a European directive providing

Referendum for EEC only

From Mr P W Richards,

Sir, You state in your excellent article, "Zimbabwe's flower exports take to the sky" (December 21), it is incorrect to say that the [flower] industry took off when white tobacco farmers decided to diversify, fearing the strength of the anti-smoking lobby in the west.

Traditionally, tobacco production has been the mainstay of farming in those areas of Zimbabwe suitable for this purpose. However, generations of tobacco farmers have recognised the danger of having all

your eggs in one basket and have attempted different forms of diversification.

I well remember the governor of the Reserve Bank, when opening the annual tobacco congress in 1961, exhorting tobacco growers to diversify and suggesting ground nuts as a possible crop. This diversification has ebbed and flowed over the years, depending on the prevailing economic return of tobacco viz a viz that of alternative crops.

Horticulture is presently the most popular alternative source of income for tobacco



Call 0800 700 444 to apply for the American Express Card.

### Zimbabwe tobacco growers diversify by choice

From Mr J G Bye,

Sir, Your state in your excellent article, "Zimbabwe's flower exports take to the sky" (December 21), it is incorrect to say that the [flower] industry took off when white tobacco farmers decided to diversify, fearing the strength of the



## IN BRIEF

### Bull sees return to operating profit

Groupe Bull, the French computer manufacturer in the process of being privatised, has achieved its aim of returning to profit at the operating level, according to Mr Jean-Marie Descarpentres, the chairman. Page 16

**Air France thunders Swissair plane's**  
Swissair, the quoted Swiss carrier, said Air France's partial ownership of Sabena was hindering its plans to buy a large minority stake in the Belgian national airline. Page 16

**Fokker seeks to calm shares**  
Shares in Fokker, the Dutch aircraft manufacturer, fell heavily after a series of negative domestic media reports, but recovered strongly towards the close of trading as the company repeated that it was working on a new cost-cutting campaign. Page 16

**Santander snatches phone licence**  
Banco Santander has delivered a second punishing blow to Banco Bilbao Vizcaya, its chief domestic banking rival. In little over six months, A Santander-backed consortium has edged a BBV-led group out of the contest to develop a nationwide mobile telephony system. Page 19

**Jardine leaves the Hong Kong SE**  
Hong Kong's stock market today loses two of its biggest and oldest listings, Jardine Matheson and Jardine Strategic Holdings. Page 19

**SCA to sell clothes division**  
SCA, the Swedish forestry products group, has agreed to sell a clothes-making unit to William Baird, the British ready-to-wear clothing producer. It is the second strategic move announced this week by SCA's biggest subsidiary, Mölnlycke. Page 16

**EA-General maintains dividend**  
EA-General, Austria's second largest insurance group, said its premium income rose 7 per cent in 1994, to Sch36.5m (£8.3bn), and reaffirmed its intention to maintain its 15 per cent dividend. Page 16

**Stanhope takes trading advice**  
Stanhope, the property developer headed by Mr Stuart Lipton, is understood to have taken legal advice about continuing trading, pending the outcome of negotiations with its bankers, advisers and other companies which have proposed rescue schemes. Page 20

**Prudential buys 25% of Thai group**  
Prudential Corporation, the UK's largest life insurer, has bought a 24.99 per cent stake in Thai Sethakit Life and plans to bid for further shares. Page 20

**First Choice tones down German alliance**  
First Choice, the UK holidays group, scaled down its strategic alliance with Germany's Westdeutsche Landesbank, which controls a 21 per cent stake in it. Page 16

**Bass chief's pay increases 17%**  
Mr Ian Prosser, chairman and chief executive of Bass, the brewing group, enjoyed a 17 per cent rise in total pay last year, twice the rate of increase in group pre-tax profits. Page 20

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Chief price changes yesterday			
FRANKFURT (Dax)		Daimler	24/45
Alfa Prt	-30	Farbwerke	+ 145
Barclays Berlin	+ 16	Fiat	- 15
Bayer Aktien	+ 14	Fluor	+ 100
Bayer Aktien	+ 14	GDF	+ 110
Deutsche Börse	+ 17	El Agipene Ct	+ 315.8 - 32.2
Ernst & Young	+ 15	Enimex B-S Ct	+ 813 - 33
Euroland	+ 15	Euromat	+ 15
Volkswagen Pft	+ 15	Total S	+ 312.3 - 10.7
Fluor	+ 15		
Finsa	+ 24		
FCO Dax	+ 14		
Fluor Corp	+ 24		
Motorola	+ 24		
Procter & Gamble	+ 14		
Smucker J&L	+ 14		
Standard & Poor's	+ 14		
PARIS (Parib)	+ 14		
Wise	+ 14		
Foto Lyonnaise	+ 33		
New York prices at 12.30			
LONDON (Personal)			
Barclays	+ 8	Aveco Brit Foods	+ 55 - 14
Brown-Forman	+ 1	Bar Circle	+ 204 - 10
Brown-Forman	+ 1	Cable & Wire	+ 271 - 12
Drayton	+ 1	Cognac Union	+ 504 - 14
Glaxo	+ 1	Horizon Asset	+ 807 - 11
Marconi-Brown	+ 10	Sun America	+ 202 - 8
Wise	+ 3	Swissair	+ 220 - 6

Chief price changes yesterday			
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Ernst & Young	+ 15	Enimex B-S Ct	+ 813 - 33
Euroland	+ 15	Euromat	+ 15
Volkswagen Pft	+ 15	Total S	+ 312.3 - 10.7
Fluor	+ 15		
FCO Dax	+ 14		
Fluor Corp	+ 24		
Motorola	+ 24		
Procter & Gamble	+ 14		
Smucker J&L	+ 14		
Standard & Poor's	+ 14		
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Marconi-Brown	+ 10	Sun America	+ 202 - 8
Wise	+ 3	Swissair	+ 220 - 6

do Atlântico, the second largest bank in September.

The sale price is close to £550 a share. BTA shares were indefinitely suspended at £550 yesterday when rumours of the sale reached the market.

BTA's return to Portuguese control marks a political victory for the Lisbon government, which has pressed for the reduction of Bantito's stake to 25 per cent - the limit set for foreign holdings under the terms of BTA's privatisation, begun in 1988.

The deal is also a coup for Mr Champalmaud, who remade his fortune in Brazil after most of his assets, representing almost two-thirds of Portugal's industrial capacity, were nationalised.

Bantito is to sell both the 25 per cent of BTA it owns directly and 25 per cent it controls indirectly through two Portuguese lawyers.

A six-month parliamentary hearing into the legality of the indirect stake proved inconclusive. But Bantito's sidestepping of Portuguese law has been an acute embarrassment for the government.

Banco Santander, which acquired control of Bantito in April to become Spain's largest banking group, described the sale as a rational business decision.

The deal has to be approved by the Portuguese authorities. But the finance ministry is believed to have informally approved the deal and bankers said Mr Champalmaud may have secured an exemption having to make an offer for 100 per cent of BTA.

## FINANCIAL TIMES

# COMPANIES & MARKETS

Friday December 30 1994

**MoDo**

PULP, PAPER &  
PAPERBOARD

## Fininvest to sell supermarkets chain

By Robert Graham in Rome

division which are grouped under the umbrella of the Standa chain of stores. The division has a total turnover of £1.200bn. The sale of Euromercato will cut turnover by

Benetton and Luxottica; but the COOP could also come in even though this is less likely since behind them were other partners including Rinascente (the Fiat

founder of Luxottica. Only two months ago they broke into this field, teaming up with Switzerland's Movenpick, to pay £2.100bn for the GS-Autogrill group being privatised by IRI, the state holding company.

The cash proceeds from Euromercat will be used to reduce Fin-

invest's overall debt burden

which last year totalled £13.922bn. Fin-

invest indicated three months

ago that debt would be reduced

to £2.800bn by the year end.

Mr Berlusconi said yesterday the sale would also allow an extensive upgrading of Standa.

Some £500m of existing debt is concentrated in loss-making Standa; but Standa's debts are believed to be considerably greater if long unpaid bills to suppliers are included.

Standa this year is

expected to lose £1.000m.

Fininvest has been contemplating a partial or total withdrawal

from retailing for nearly eighteen

months. Mr Berlusconi bought into this sector in the late eighties paying high prices, financed by costly debt. This was especially the case with Standa bought in 1988. Both Mr Berlusconi and his cousin, the manager, are understood to have resisted selling Standa. Standa alone provides more than 40 per cent of Fininvest cash flow, an important consideration for the group's overall finances.

Richard Tomkins charts the transformation of ITT as the conglomerate nears its 75th anniversary

## Not on the rocks but it may still break up

**T**he year about to begin will mark the 75th anniversary of ITT, the US conglomerate once known as International Telephone and Telegraph. Will it also be the year in which the company ceases to exist?

Wall Street is ripe with speculation

that ITT is about to be broken up. The company itself does not

Friday December 30 1994

González fails to quell fear of instability

## 'Dirty war' claims hit Spanish markets again

By Tom Burns in Madrid

Accusations of government involvement in a secret "dirty" war against separatist Basque terrorist sympathisers shook Spanish markets again yesterday, sending the peseta to an historic low against the D-Mark.

Increased fears of political instability drew Mr Felipe González, the prime minister, into giving a rare press conference, but he failed to settle market nerves. The Madrid Bourse fell to its lowest level since the European currency crisis in the autumn of 1992.

Mr González, who is facing the most testing period of his 12 years in power, rejected allegations that his government had been involved in a shadowy death squad and said he had no intention of resigning or calling early elections.

"There is a majority that prefers the stability that comes from serving out the full legislature," said the premier, who won a fourth successive four-year term

in 1992, although he fell short of an overall majority.

But as a relaxed looking Mr González dug in his political heels, the Bourse came under sharp selling pressure and its general index closed at 280.33 points, 3.26 points down on Wednesday. The index has lost nearly 6 per cent of its value

**Domestic fears hit Madrid**  
World stocks, Section I

since the government was rocked last week by allegations that linked it to an undercover war against Basque separatists in the mid-1980s.

The peseta, which had fixed at Pta84.64 against the D-Mark on Wednesday dropped to Pta85.20 before steady to close at Pta84.94. The yield on the Treasury's 10-year bond was pushed up to 11.88 per cent from Wednesday's 11.72 per cent.

The government, which has been shaken by a string of scandals and corruption allegations

this year, is highly embarrassed by a well-aimed legal probe into a group of mercenaries who fought members of the Basque Eta organisation in south-west France 10 years ago.

Three former security chiefs were remanded in custody last week in connection with the dirty war, and more indictments are likely.

Questioned over the death squad allegations, Mr González said his government had "acted strictly within the framework of the law in what was an extraordinarily difficult situation". He rejected opposition calls for his resignation as "out of the question".

Assurances of continued back-up came from the Catalan nationalist leader, Mr Jordi Pujol, whose party has provided Mr González with a parliamentary majority over the past 18 months.

In an interview with a Barcelona newspaper yesterday, Mr Pujol said the prime minister could count on his "wholehearted and firm support".

The US has overtaken Japan this year to become the world's top motor vehicle producing nation for the first time since 1979.

According to data collated by Automotive News, the US weekly, vehicle production in the US has risen by 13 per cent this year to 12.28m from 10.87m in 1993.

Vehicle output in Japan has fallen by 2 per cent to 11.23m in 1993. Production in Japan has fallen for four years in succession under heavy pressure from the domestic recession and from declining exports.

New vehicle registrations in Japan have shown the first signs of recovery in recent months, but, for the full year, vehicle output has fallen to the lowest level for 12 years. Production peaked at 13.4m in 1990 after first overtaking the US in 1980.

In the US, vehicle production has risen rapidly during the past three years, matching the expansion in the domestic market.

Output dropped to 8.8m in 1991, the low point of the last recession. It has risen by 38 per cent in the past three years to reach this year's level, however, and is forecast to increase further next year to top the previous record level of 12.89m, set in 1978.

The new ascendancy of the US as the world's leading vehicle producer owes much to the restructuring of the world automotive industry over the past decade.

Japanese vehicle producers have contributed greatly to the shifting balance by transferring more production out of Japan

during the past 10 years, first to North America, and more recently to Europe and south-east Asia.

General Motors, Ford and Chrysler, the big three US car producers, have restructured drastically to regain world competitiveness and their fortunes have revived, but their domestic position is under challenge.

About 15 per cent of US vehicle production is now coming from Japanese carmakers' plants – either wholly owned or in joint ventures – compared with nothing little more than a decade ago. Honda was the first Japanese vehicle maker to begin car assembly in the US in 1982.

Japanese vehicle makers now operate 11 assembly plants and three engine plants in North America, and Honda is the leading US car exporter.

Since the early 1980s, the Japanese have built in the US an auto industry larger than that of Britain or Italy or Spain.

With its improved competitiveness, the North American auto industry is becoming a growing force in world auto markets, albeit from a small base.

apply to a similar reprocessing contract with Cogema of France, there is no need to end these now. But negotiations will take place with the French company.

The lost contract relates to the second 10 years of Thorpe operation, from 2004 to 2014. BNFL had offered German utilities cancellation clauses after the law change.

BNFL had no comment on the cancellation last night. However, the company has been expecting to lose business ahead of the increase in cancellation penalties. It estimated it could lose 20 per cent of Thorpe's orders in the second 10 years. This would not affect the plant's viability, which was based on revenues for its first 10 years.

The cancellation will hearten British environmentalists who opposed Thorpe's construction and sought to have it cancelled during last year's government review.

Since penalty payments do not

## Second German nuclear plant cancels contract with Thorp

By Andrew Fisher in Frankfurt and David Lascelles in London

British Nuclear Fuels has received another setback after the decision by a second German nuclear power station not to send fuel to the Thorp reprocessing plant at Sellafield in north-west England. Further cancellations may be on the way.

RWE and Bayenwerk, the companies operating the 2,600MW Gundremmingen nuclear power station in Bavaria, wrote to BNFL last week informing it of their intention to end the present contract and use domestic storage facilities instead.

BNFL learned just before Christmas that the Kruemmel power station in northern Germany was cancelling a contract with Thorp under pressure from the nuclear lobby.

Because of changes this year to

Germany's nuclear legislation, permanent storage is now possible in Germany. This is much cheaper than the controversial reprocessing method, which produces plutonium.

A permanent storage facility is being built at Gorleben in the northern state of Lower Saxony.

Until the new site is completed, spent fuel from Gundremmingen, located on the river Danube, will be stored at Ahaus in the state of North Rhine-Westphalia (where RWE is based) and at interim facilities in Gorleben.

No details were available about the size or duration of the Gundremmingen's contract.

Bayenwerk said the companies were ending the contract before December 31 to save on cancellation penalties. Other German utilities may also cancel before this weekend for the same reason.

The cancellation will hearten British environmentalists who opposed Thorpe's construction and sought to have it cancelled during last year's government review.

Since penalty payments do not

## Unisys cuts

Continued from Page 1

businesses to provide nearly half of the commercial revenue of Unisys in 1995," he said.

"As they become an ever larger part of the total company, the traditional infrastructure must be far more streamlined and efficient."

For 1993, Unisys reported net income of \$56.4m on revenues of \$7.7bn. For the first nine months of 1994, net income totalled \$152.8m on revenues of \$5.3bn.

## Mexican economy plan

Continued from Page 1

extra funds if holders of government securities decided not to roll over their investments and demanded dollars over pesos.

More than \$10bn in dollar-denominated, short-term government securities called Tesobonos come due in the next three months.

Investors were also encouraged by signs that negotiations between the government and armed rebels in the southern state of Chiapas could begin soon.

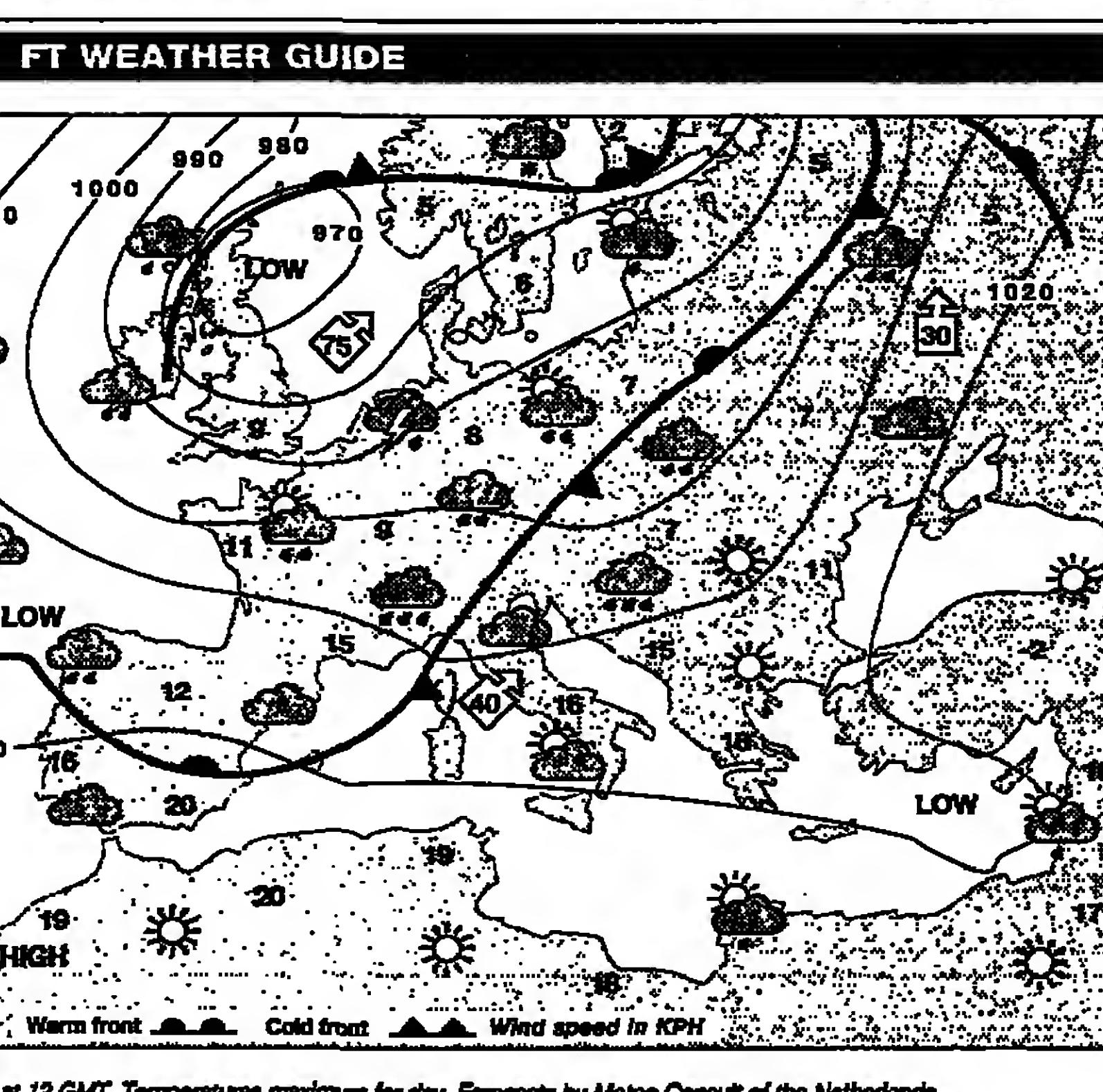
remain in the market, thus reducing the need for an emergency injection of international capital.

Meanwhile, the central bank said it was preparing a package of "new and attractive" debt instruments to retain the participation of foreign investors.

Investors were also encouraged

by signs that negotiations between the government and armed rebels in the southern state of Chiapas could begin soon.

With its improved competitiveness, the North American auto industry is becoming a growing force in world auto markets, albeit from a small base.



FT WEATHER GUIDE  
Situation at 12 GMT. Temperatures minimum for day. Forecasts by Meteo Consult of the Netherlands

### TODAY'S TEMPERATURES

	Maximum	Minimum	Condition	Wind speed in KPH
Abu Dhabi	sun 26	26	Balgade	0
Accra	sun 31	21	Berlin	7
Algiers	fair 20	20	Bermuda	10
Amsterdam	shower 9	8	Bogota	21
Atlanta	sun 18	18	Bordeaux	10
Baku	cloudy 3	3	Brisbane	18
Bahrain	fair 31	21	Budapest	9
Bangkok	drizzl 9	9	Cape Town	23
Barcelona	cloudy 16	16	Caracas	0
Buenos Aires	sun 26	26	Castile	7
Copenhagen	rain 7	7	Copenhagen	10
Dakar	fair 10	10	Chicago	19
Damascus	cloudy 19	19	Colombia	20
Dubai	fair 26	26	Dublin	10
Dubrovnik	fair 16	16	Dubrovnik	15
Durban	sun 24	24	Durban	15
Egypt	fair 30	20	Edinburgh	7
Edinburgh	fair 16	16	Edinburgh	7
El Paso	sun 30	20	El Paso	10
Erbil	fair 26	26	Erbil	10
Faroe Islands	sun 26	26	Faro	30
Geneva	rain 10	10	Geneva	15
Gibraltar	cloudy 18	18	Gibraltar	15
Glasgow	rain 8	8	Glasgow	15
Gothenburg	rain 10	10	Gothenburg	15
Hamburg	shower 7	7	Hamburg	15
Helsinki	rain 14	14	Helsinki	15
Hong Kong	cloudy 22	22	Hong Kong	15
Istanbul	sun 20	20	Istanbul	15
Jakarta	fair 31	21	Jakarta	15
Jersey	shower 11	11	Jersey	15
Karachi	cloudy 26	26	Karachi	15
Kuala Lumpur	cloudy 26	26	Kuala Lumpur	15
Lagos	sun 16	16	Lagos	15
Las Palmas	fair 23	23	Las Palmas	15
Lima	cloudy 25	25	Lima	15
Lisbon	rain 17	17	Lisbon	15
London	shower 10	10	London	15
Luxembourg	shower 6	6	Luxembourg	15
Lyon	rain 19	19	Lyon	15
Madrid	cloudy 22	22	Madrid	15
Malaga	sun 7	7	Malaga	15
Manila	rain 30	30	Manila	15
Milan	rain 11	11	Milan	15
Moscow	rain 31	31	Moscow	15
Nairobi	cloudy 28	28	Nairobi	15
Nicosia	fair 16	16	Nicosia	15
Oslo	fair 26	26	Oslo	15
Paris	cloudy 14	14	Paris	15
Perth	fair 33	33	Perth	15
Pristina	shower 9	9	Pristina	15
Rome	fair 16	16	Rome	15
Rio de Janeiro	rain 17	17	Rio de Janeiro	15
Riyadh	fair 17	17	Riyadh	15
Rome	fair 16	16	Rome	15
Russia	rain 20	20	Russia	15
Rwanda	cloudy 11	11	Rwanda	15
Salzburg	rain 10	10	Salzburg	15
Santiago	rain 22	22	Santiago	15
Sarajevo	cloudy 11	11	Sarajevo	15
Singapore	rain 22	22	Singapore	15
Stockholm	rain 11	11	Stockholm	15
Taipei	rain 11	11	Taipei	15
Tel Aviv	shower 8	8	Tel Aviv	15
Tokyo	fair 10	10	Tokyo	15
Tunis	fair 18	18	Tunis	15
Vancouver	rain 11	11	Vancouver	15
Veneza	fair 21	21	Veneza	15
Vienna	rain 7	7	Vienna	15
Washington	fair 17	17	Washington	15
Zurich	rain 11	11	Zurich	15

Ellis Clothesman  
to William B.

# Critiques lit

1. *Mediæval* 2. *Mediæval* 3. *Mediæval*



**People's Republic of China has chosen the Alenia's "Marco Polo" project to send the country flying into the future. Within this perspective, Alenia is producing air traffic control systems, radars and communication equipment, some of which are currently operating and others soon will be installed in 27 Chinese airports. The "Marco Polo" project will ensure the complete safety of air traffic over China, which is expected to increase dramatically over the next few years. There is high regard for Alenia's technological heritage:**

this is why the company and its products have been recognized by more than 80 countries across the world.

The Alenia logo consists of a black and white graphic on the left depicting a side profile of an aircraft, possibly a jet, with its engine and wing visible against a dark background. To the right of the graphic, the word "Alenia" is written in a large, bold, black, sans-serif font. Below "Alenia", the text "A FINMECCANICA COMPANY" is displayed in a smaller, black, all-caps, sans-serif font.

## INTERNATIONAL COMPANIES AND FINANCE

**Bull recovers at operating level**

By John Riddings in Paris

Groupe Bull, the French computer manufacturer in the process of being privatised, has achieved its aim of returning to profit at the operating level, according to Mr Jean-Marie Descarpentries, chairman.

Addressing a shareholders' meeting yesterday, he said he expected an operating profit of between FF100m and FF200m (\$18.3m-\$35m) for 1994, compared with a loss of FF1.8bn in 1993.

Mr Descarpentries said the turnaround reflected the

restructuring and cost-cutting measures implemented over the past year, and that the company should break even at the net level by the middle of 1995.

The improvement in results follows a protracted period of significant losses during which Bull has accumulated a net deficit of FF20bn since 1989. The weak financial performance pushed the French government to seek privatisation through the formation of industry partnerships rather than through a public offer for shares.

According to the Bull chair-

Potential bidders for stakes in Bull, which are thought to include NEC of Japan, are examining the company before making a binding final offer. The privatisation is scheduled to be completed before next spring's presidential elections.

Mr Descarpentries said the improved prospects for the group should allow a flotation of shares after privatisation. He said this could involve between 10 and 20 per cent of the equity in the company and would require the agreement of its leading shareholders.

According to the Bull chair-

**Green light for Cariplo in Rolo bid**By Robert Graham  
in Rome

The Bank of Italy has given the go-ahead for the L3.291bn (\$2bn) bid for Credito Romagna (Rolo), the Bologna-based commercial bank, launched by a consortium headed by Cariplo, Italy's largest savings bank.

The bid still requires the approval of Consob, the stock exchange watchdog, but this is unlikely to be withheld.

The main issue is whether Credito Italiano, the recently-privatised bank that initiated a takeover battle for Rolo, will raise the stakes. Credito has already improved its original offer, but it is still 18 per cent below that of Cariplo.

The consortium led by Cariplo is made up of IMI, the partly privatised banking institution Carisbo, the regional savings bank covering the Emilia-Romagna region; and Reale Mutua, the insurance group. The bid, launched just before Christmas, is for 70 per cent of Rolo's equity and would leave Cariplo with 52 per cent of the shares at an anticipated cost of L2.40bn.

The official prospectus is likely to be released early next week, probably on January 3. Analysts believe Credito would find it difficult to improve the Cariplo offer on its own. However, they consider it still possible for allies to be brought in to help capture the prize of one of Italy's most profitable regional banks.

**Fokker moves to arrest share fall**By Ronald van de Krol  
in Amsterdam

Shares in Fokker, the Dutch aircraft manufacturer, fell heavily yesterday after a series of negative domestic media reports, but recovered strongly towards the close of trading as the company repeated that it was working on a new cost-cutting campaign.

In early trading, the shares fell by more than 15 per cent, to Fl 10.20 from Fl 12.10 on Wednesday. Dutch television on Wednesday night reported that management consultants believed the company's high costs made it uncompetitive, raising the possibility of plant

closures. A Dutch newspaper said job losses might be as high as 1,000, while union officials said they were expecting proposals for more than 500 job cuts.

However, the shares recovered after the company dismissed the reports of 1,000 further job losses and plant closures as premature speculation. It reiterated its intention to draw up a new cost-cutting plan by the end of February. It also said the management consultants' report was based on out-of-date figures.

Fokker's shares closed yesterday at Fl 11.80, down 2.5 per cent from Wednesday.

In mid-December, the shares

fell to a 1994 low of Fl 8.50 after the company revised earlier forecasts of lower losses and said the deficit this year would be around the record Fl 460m (\$61.6m) incurred in 1993.

The company has blamed the decline of the dollar and downward pressure on the selling price of aircraft for its failure to pare losses this year.

**Athena suppliers seek legal advice**By Raymond Snoddy  
in London

Creditors of Athena, the poster and card retailer forced into administrative receivership by its parent Pentos, were yesterday seeking legal advice about the legality of the action.

Mr John Allan, a director of Bob Prods, a Sheffield-based supplier of novelty stationery,

said his company was owed £75,000. He said he always understood that he was dealing with Pentos, and he only agreed to supply Athena after a £45m (£89.6m) rights issue came through for Pentos earlier this year.

Pentos, whose main company is Diltons the booksellers, said on Wednesday the board

had decided it should not inject further funds into Athena's UK business because there was no prospect of its returning to profit in the foreseeable future.

Earlier this week, Pentos had changed the name of the Athena subsidiary from Pentos Retailing Group to Athena Holdings. The directors of the latter then called in the receivers.

Mr Bill McGrath, Pentos chief executive, said in an interview on Wednesday: "We couldn't give it [Athena] away." Mr Marler said yesterday: "To ring fence a bit of the business like this is morally reprehensible."

Pentos declined to comment yesterday.

**First Choice tones down German alliance**By David Blackwell  
in London

First Choice, the UK holidays group, yesterday scaled down its strategic alliance with Germany's Westdeutsche Landesbank, which controls a 21 per cent stake in it.

The group also announced that Mr Wolfgang Trube, chief executive of a WestLB subsidiary, would be joining the board as a non-executive director. He will replace Mr Christopher Rodrigues, chief executive of Thomas Cook, which is 90 per cent owned by WestLB.

Thomas Cook bought the 21 per cent stake in First Choice, formerly known as Owners Abroad, last year, helping First Choice to defeat a hostile takeover bid from Airtours, a rival tour operator.

The Owners Abroad management at the time expected substantial savings to follow through co-operation with LTU, the German travel company 24 per cent owned by WestLB.

First Choice will retain its strategic agreement with Thomas Cook, but will end attempts to hinder economies through links with LTU. Mr Trube's task will be to monitor WestLB's investment and to provide an informal channel for links with LTU.

"I think it's a new start," Mr Francis Baron, First Choice chief executive, said yesterday. "It's a new start on a very pragmatic, business-oriented basis, aiming to secure benefits for all our shareholders."

Dr Johannes Ringel, chairman of Thomas Cook and a member of the WestLB board, said that WestLB remained "committed and supportive" shareholders and believe that the company has a bright future.

The alliance always promised far more than it delivered. At the same time the management structure of First Choice changed out of all recognition. Shortly after defeating the Airtours bid, the chairman and managing director of Owners Abroad resigned after disclosing that full-year profits would be only half of market expectations.

**SCA sells clothes-making division to William Baird**By Hugh Carnegie  
in Stockholm

SCA, the Swedish forestry products group, said yesterday it had agreed to sell a clothes-making unit to William Baird, a UK clothing producer. It is the second strategic move announced this week by SCA's biggest subsidiary, Mölnlycke.

Mölnlycke, which makes leisure wear at three manufacturing plants in Portugal, is to be sold at a price "slightly above" its net book value, which stands at about Skr185m (£24.7m).

Turnover this year is set to reach Skr720m, and SCA said the price represented a multiple of six times operating

sales of about 250m (£77.5m), produces chiefly for the UK market. It said it intended to keep Mölnlycke as a separate unit within the Baird group, and maintain its present management.

The sale is a significant step in a restructuring programme at Mölnlycke, a company with annual sales of Skr1.5bn, to focus on and strengthen its core operations in absorbent materials, tissue and clinical products. As well as disposing of Mölnlycke, Mölnlycke is looking to sell its toiletry division.

On Wednesday, Mölnlycke said it was spending Skr40m on buying up the balance of Scott Health Care, a 50-50 joint venture with Scott Paper in the US which makes adult incontinence products in the US and Canada.

**Swissair criticises Air France**

By Ian Rodger in Zurich and John Riddings in Paris

Swissair, the quoted Swiss carrier, said Air France's partial ownership of Sabena was hindering its plans to buy a large minority stake in the Belgian carrier.

However, industry observers believe that Mr Christian Blanc, chairman of Air France, may be leaning towards a sale or reduction of the stake.

"It would be difficult for Air France to muster any further capital for Sabena, given its own need for financial resources," said one airline industry analyst.

Swissair also denied a report in a Belgian newspaper that it was seeking a 75 per cent stake in Sabena. It said its aim in associating with Sabena was to obtain

influence over an operating entity within the European Union and thereby strengthen its competitive position in Europe.

As Switzerland is unlikely to join the EU in the foreseeable future, Swissair faces possible discrimination on EU routes. Its existing co-operation with Austrian Airlines is helpful but insufficient.

"Expanding our group of hubs - Zurich, Geneva and Vienna - to include the capital of Europe would do much to alleviate this serious shortcoming," Mr Müller said.

Swissair has not said how large a stake it is seeking in Sabena, but there has been speculation that it would be as much as 49 per cent.

**EA-Generali maintains dividend**

By Ian Rodger

and the Czech Republic for Generali.

The Vienna-based group said premium income of its five Austrian primary insurance subsidiaries rose 7 per cent in 1994, to Skr36.5m (£6.3m), and reaffirmed its 15 per cent dividend.

EA-Generali is 80 per cent owned by Assicurazioni Generali of Trieste and operates in Austria, Germany, Hungary and the Czech Republic were in a start-up phase.

Reinsurance revenues from third parties fell 40 per cent to Skr500m following the group's decision to concentrate on internal business.

Earnings per share were expected to rise from Skr0.6 in 1993 to Skr1.0.

Mr Dietrich Karner, chief executive, said the group was satisfied with its results.

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**Wells Fargo & Company**  
\$150,000,000 Floating rate notes 1997  
For the period 28 December 1994 to 24 March 1995 the notes will bear interest at 6.25% per annum for the interest period 30 December 1994 to 31 January 1995. Interest payable on 30 June 1995 and 30 June 1996. The notes will carry an interest of 7.0625% per annum. Interest payable on 30 June 1997 will amount to US\$1,777.03 per US\$50,000 certificate and US\$17,702.28 per US\$500,000 certificate.

Agent: Morgan Guaranty Trust Company  
JPMorgan

**Britannia Building Society**  
\$150,000,000 Floating rate notes 1997  
For the period 28 December 1994 to 24 March 1995 the notes will bear interest at 6.25% per annum for the interest period 30 December 1994 to 31 January 1995. Interest payable on 30 June 1995 and 30 June 1996. The notes will carry an interest of 7.0625% per annum. Interest payable on 30 June 1997 will amount to US\$1,755.56 per US\$10,000 and US\$27,780 per US\$500,000 note.

Agent: Morgan Guaranty Trust Company  
JPMorgan

**Wells Fargo & Company**  
\$150,000,000 Floating rate notes 1997  
For the period 28 December 1994 to 24 March 1995 the notes will bear interest at 6.25% per annum for the interest period 30 December 1994 to 31 January 1995. Interest payable on 30 June 1995 and 30 June 1996. The notes will carry an interest of 7.0625% per annum. Interest payable on 30 June 1997 will amount to US\$1,755.56 per US\$10,000 and US\$27,780 per US\$500,000 note.

Agent: Morgan Guaranty Trust Company  
JPMorgan

**United Kingdom**  
\$U.S.4,000,000,000 Floating Rate Notes Due 1996

In accordance with the provisions of the Notes, notice is hereby given that the Interest Amounts payable on the next Interest Payment Date 31st January, 1995 will be US \$132.65 for each US \$10,000 Note and US \$7,181.40 for each US \$250,000 Note.

Agent: Bank of America International Limited  
30th December, 1994

**People's Republic of Italy**  
US \$300,000,000 Floating Rate Notes due 1997

In accordance with the provisions of the Notes, notice is hereby given that the Interest Amounts payable on the next Interest Payment Date 31st January, 1995 will be US \$132.65 for each US \$10,000 Note and US \$7,181.40 for each US \$250,000 Note.

Agent: Bank of America International Limited  
30th December, 1994

**Bank of Greece**  
\$U.S.300,000,000 Floating rate notes due 1997  
Issued by The Nikko Securities Co. (Deutschland) GmbH for the purpose of funding and maintaining a subordinated loan to

**The Ashikaga Bank, Ltd.**  
Notes are hereby given that for the three month interest Period from 30th December, 1994 to 31st March, 1995 the notes will bear interest at the rate of 6.25% per annum. Coupon No.34 will therefore be payable on 30th March, 1995 at the rate of US\$7,812.50 from Notes of US\$300,000 nominal and US\$15,625 from Notes of US\$10,000 nominal.

S.G. Warburg & Co. Ltd.  
Agent Bank

**BALLOT**  
Shanghai Tyre & Rubber Co., Ltd., 63 Si Chuan Road Mid, Shanghai 200022, People's Republic of China

Interim Shareholders' Meeting

Name of Shareholder:

Shareholder Account No:

Number of Shares held:

Tel:

Fax:

Vote: A to authorize the issue and sale of Convertible Bonds as set forth in the Notice of Interim Shareholders' Meeting: For:  Against:

B. To waive preemptive rights in respect of the issue and sale of Convertible Bonds as set forth in the Notice of Interim Shareholders' Meeting: For:  Against:

Signature:

\* Print responses to all blanks above except for the signature. + Indicate vote with the following mark: ✓

Shanghai Tyre & Rubber Co., Ltd., 63 Si Chuan Road Mid, Shanghai 200022, People's Republic of China

Interim Shareholders' Meeting

Name of Shareholder:

Address of Shareholder:

## RJB ends 48 years of nationalised coal

By Peggy Hollinger

The age of the nationalised coal industry came to an end yesterday this morning, almost 48 years to the day after the government first took control of Britain's collieries.

At one minute past midnight, RJB Mining became the owner of by far the largest part of British Coal: its 15 operational English mines.

The deal will make Mr Richard Budge, RJB's chief executive who has been criticised for the assumptions used to back the company's bid price, some £20,000 richer. His contract allows for this bonus to be paid on completion of the deal, as well as further profit performance payments of up to 100 per cent of his basic £250,000.

RJB shareholders approved the takeover at an unusual and sparsely attended EGM in London yesterday. Investors have already put up £400m towards the £280m purchase price; the balance will be funded with debt.

Mr Budge said he had no plans for substantial changes to the mines or to the employment conditions of the 7,100 miners he was taking on. Previous management had already got the business "down to the operational levels it should be at", he said. Furthermore, the enlarged company would be able to cut 5 per cent from British Coal's operating costs almost immediately.

British Coal's Scottish assets were transferred yesterday to Mining (Scotland) for £29m. Celtic Energy, which is purchasing the Welsh mines, is expected to conclude the transfer today, leaving British Coal with only non-mining assets to unwind. The deal ends a five-year journey to privatisation.

The National Coal Board was set up on January 1 1947 to own and operate Britain's mines as an early part of the incoming Labour Party's programme to nationalise basic industries. It was a Conservative government under Mrs Margaret Thatcher which decided in 1988 to reverse the process.

Memories of the bitter min-

### Polaris

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Trevor Humphries

## COMPANIES AND FINANCE

Banco Bilbao Vizcaya edged out in bid for Spain's mobile telephony system

## Santander snatches cellular phone licence

By Tom Burns in Madrid

Banco Santander has delivered a second blow to Banco Bilbao Vizcaya, its chief domestic banking rival, in a little over six months.

In late April it beat BBV in a public auction to acquire Banco Español de Crédito Banesto, and now a Santander-backed consortium has edged a BBV-led group out of the contest to develop a nationwide mobile telephony system.

The result of the contest for Spain's second GSM (global system of mobile communications) licence is the first is reserved for the government's Telefónica, also saw AirTouch, the US cellular operator, and British Telecommunications, the technological partners of the winning Airtel-ASR consortium, defeat the UK's Vodafone, part of BBV's competing group.

BBV's humiliation is considerable. In addition to Santander, Airtel counts among its

main shareholders Banco Central Hispano, a second big bank competitor and one that had stood aside from the Banco bidding process.

Determined not to be beaten again, BBV's Cometa-SRAM consortium had made a bigger cash bid for the PB490m (£432m) against the PB450m (£412m) offered by BBV and its fellow Airtel shareholders.

In April Santander took the Banco prize when its sealed bid offered Pts752 per Banco share against BBV's Pts657.

With its acquisition of Banco Santander, put itself ahead of BBV in the size of its branch network and in the volume of deposits, mutual funds and loans to become the largest domestic banking group.

In the event, the cash offer

potentially very profitable but it represents a huge investment effort which will have to wait three to five years to see any returns," he said. "BBV was making a very large bet and research and development, and the bids were awarded points under a complex application system drawn up by the government, and Lehman Brothers, the US bank.

Full details of the two bids to develop what represents one of

largest single investment projects to date in Spain will be released to Spain next month but Mr José Borrrell, the telecommunications minister, said Airtel's bid had totalled 474.30 points out of a possible 600 against Cometa's 432.67.

Mr Juan Berberena, banking analyst at AB Asociados, the Madrid securities house, said BBV's failure to win the GSM licence was "a psychological blow" that weakened its image but added that its defeat could turn out to be a blessing in disguise. "The GSM business is

investments that could total Pts200bn. Under the terms of the tender the consortium has to provide GSM's pan-European digital network to all towns of more than 10,000 inhabitants within five years.

The Spanish licence rounds off an acquisitive year for Airtel, which has a 16 per cent stake in Airtel (BT has 7 per cent) and will be its dominant technological partner. The US operator entered the cellular markets in Germany, Portugal and Sweden in 1992 and those of Belgium, Italy and Spain this year.

Airtel will share with Telefónica a Spanish GSM market forecast to have 2m users and a turnover of Pts20bn by 1998. "Telefónica will have to beef up its marketing - in AirTouch and BT it will be facing two experienced and tough competitors in the cellular environment," said Mr Jonathan Lee, telecommunications analyst at James Capel, the London broker.

## Jardine sets sail for Singapore

The Hong Kong market is losing two of its oldest listings. Louise Lucas and Simon Holberton report

Hong Kong's stock market today loses two of its biggest and oldest listings, Jardine Matheson and Jardine Strategic Holdings.

Up to 85 per cent of trading in Jardine Matheson stock has passed through the Hong Kong stock exchange, with London absorbing the remainder.

Jardine, listed in Hong Kong in 1961, hopes the share trad-

ing in Hong Kong will shift to Singapore, where the company has arranged to facilitate it. If the arrangements work - including paying the cost shareholders incur in moving share registration from Hong Kong to Singapore - the transfer of trading will have a big impact on the Singapore bourse.

Jardine Fleming Securities, the brokerage owned equally by Jardine Matheson and Robert Fleming, the UK merchant bank, estimates Jardine Matheson will be the fourth biggest stock in Singapore by market capitalisation and Futures Commission following the 1987 stock market crash

to regulate the company - especially in takeovers - prompted it to seek other ways to avoid Hong Kong regulation.

This included moving the primary stock exchange listing to London in 1991, and then, in 1993, getting the authorities in Bermuda to enact a takeover code - based on London's - that applied only to the Jardine group.

An attempt this spring to persuade the Hong Kong government to accept the latest "Bermuda solution" fell at the first hurdle.

Ironically, the SFC still claims the power to regulate the company. Its powers extend to companies whose principal business and management is in Hong Kong. About 60 per cent of Jardine Matheson's earnings come from Hong Kong and China in 1993 which will remain the principal

source of earnings in the medium term.

The SFC took comfort from a decision this month by the FT-Actuaries World Indices policy committee to retain the Jardine group in the Hong Kong section of the FT-AWI indices. Morgan Stanley took a different view.

This month, Morgan Stanley Capital International restructured its Hong Kong index to reflect the delisting of the Jardine group by deleting Jardine Matheson, Dairy Farm, a worldwide retailer, Hongkong Land, the property investment company which has a stake in Trafalgar House, and Mandarin Oriental, the hotels group.

Jardine Matheson directors estimate 80 per cent of its stock is held by overseas institutions, the vast majority of whom will not be obliged to sell their holdings.

### Additional Interest Statement The Walt Disney Company

U.S. \$400,000,000  
Senior Participating Notes Due 1999

Quarterly Statement Dated December 31, 1994  
for the period from July 1 to September 30, 1994 (the "Period")

Semiannual Statement  
for the period from February 28, 1994 to August 31, 1994 (the "Period")

Annual Statement  
for the period from September 1, 1994 to August 31, 1994 (the "Period")

Please refer to the terms of the above-referenced Notes, this Additional Interest Statement

(the "Statement") is being furnished to Holders of such Notes of The Walt Disney Company (the "Company"). Capitalized terms used in this Statement have the meanings ascribed to them in the Notes and the Fiscal Agency Agreement, dated as of October 1, 1992, between the Company and the Fiscal Agency, Inc., a wholly-owned subsidiary of the Company, and its Subsidiaries and Representatives. The information contained in this Statement is given for both the Period covered by this Statement (indicated by the box checked above) and for the period from October 20, 1992, the date of issuance of the Notes (the "Issue Date"), through the end of the Period covered by this Statement.

This Statement is accompanied by a descriptive report discussing the activity and status of Eligible Films. Copies of such descriptive report can be obtained by Holders of the Notes from the Company's Corporate Trust Department, One Disney Way, Burbank, California, N.W. 120 Wall Street, New York, New York 10043, Attention: Corporate Trust Department, telephone: (212) 412-6214. If this Statement is an Annual Statement, it is also accompanied by a Supplemental Audit Report of the Company's independent public accountants. In this Statement, references to "U.S." are to United States dollars.

1. Names of Eligible Films included in the Portfolio:

- a. From the Issue Date through end of Period:  
A Dotted Christmas Carol  
The Cemetery Club  
The Adventures of Huck Finn  
The Polar Express  
Gulliver's Travels  
Life with Money  
What's Love Got To Do With It  
Son-in-Law  
House Guests  
Another Stakeout  
My Boyfriend's Back  
Home Alone  
Joy Luck Club  
Money For Nothing  
Cost Projections  
Three Musketeers  
Star Trek II  
Cabin Boy  
Don't Be Afraid
- b. From the Issue Date through end of Period:  
None

2. Names of short subjects to which any portion of Total Revenues has been allocated:

- a. For the Period: None
- b. From the Issue Date through end of Period: None

From the Issue Date through end of Period:  
For the Period:

For the Period:  
For the Period:



TELECOM ITALIA



## A NEW NAME LEADING TELECOMMUNICATIONS IN ITALY



### TELECOM ITALIA

was set up on 18 August 1994 through the merging of five companies (SIP, Italcable, Iritel, Telespazio and Sirm) that had until then managed Italian telecommunications separately, and has thus become a global operator in a completely new framework.

### TELECOM ITALIA

is now the sixth largest telecommunications operator in the world in terms of turnover and one of Europe's prime investors in the sector.

It is a joint-stock company with almost 70,000 investors and 18% of its share capital is held by foreign shareholders.

### TELECOM ITALIA

has a worldwide presence with 18 representative offices with a large number of other corporate entities. It also has a wide-spread commercial network geared to provide, even abroad, a speedy, integrated and innovative answer to the communications requirements of people and companies.

"A sharp decline in financial charges achieved thanks to ongoing economic and financial consolidation is the clear result of a policy based on rational and integrated organisation, further strict cost reduction measures and carefully selected large-scale economies in order to become competitive in a free market".  
(Francesco Chirichigno)

*Managing Director*

### THE FIRST SIX MONTHS OF TELECOM ITALIA

The figures are in lira	30.06.94	31.12.93*
REVENUES (BILL)	14.276	23.404
ADDED VALUE (BILL)	11.345	18.164
ADDED VALUE / REVENUES (%)	79,5	77,6
GROSS OPERATING MARGIN (BILL)	7.994	12.327
GOM / REVENUES	56	52,7
OPERATING PROFIT (BILL)	3.136	3.796
NET FINANCIAL CHARGES / REVENUES (%)	5,3	9,8
PROFIT BEFORE TAXATION (BILL)	2.175	1.741
INVESTMENTS (BILL)	3.680	7.963

\*1993 FIGURES REFER TO MERGED COMPANY SIP

TELECOM ITALIA - Direzione Generale - via Flaminia, 189 - 00196 Roma



PROGETTO GRAFICO PUBBLICITARIO - IACOPINI - BICCARI - ROMA

## COMPANY NEWS: UK

# Prudential buys 25% of Thai Sethakit Life

By Alison Smith

Prudential Corporation, the UK's largest life insurer, has bought a 24.9 per cent stake in Thai Sethakit Life for about £13m cash, and plans to bid for further shares.

Thai rules do not allow Prudential to acquire a stake of more than 25 per cent in TS Life, and the tender offer will be made jointly with the Khun Goonpat Asvinichit.

Prudential bought the stake from the Asvinichit family, which still controls a significant part of the company following the sale of 7.7m shares.

The tender offer is expected to begin in February, and will

involve a bid of £65 per share – the same price as recently paid. Prudential is hoping to acquire a further 10 per cent of the company through the joint offer.

At present, TS Life is the second smallest of the 12 Thai insurance companies, with about 0.7 per cent of the market. Prudential believes that in seven years' time this can be increased to a share of about 7.5 per cent through organic growth, and that the market itself has great capacity for growth. Only about 7 per cent of Thailand's are insured.

TS Life has set up a working team to decide how to maximise the benefits of the alliance.

It is likely that Prudential will provide TS Life with technical support, international expertise, new product development, computer systems, training, marketing and management skills.

Representatives of the UK insurer are intended to join the TS Life board shortly.

Prudential already has operations in Hong Kong, Singapore and Malaysia. Mr Mick Newmarch, chief executive, has highlighted the opportunities for growth in the Asia Pacific markets, compared with Europe. He believes there

will not be a pan-European medium and long-term savings market until after 2000.

## 80% rise in value of M&As

By Tim Burt

The value of mergers and acquisitions in Britain has risen almost 80 per cent in the past 12 months according to an industry survey published yesterday.

Figures compiled by Acquisitions Monthly, the financial magazine, showed that the total value of public and private takeover bids, along with management buy-outs, rose from \$10.5bn last year to \$18.5bn in 1994.

Bids for public companies increased sharply from \$6bn to

UK PUBLIC AND PRIVATE DEALS 1994						
Adviser	Public deals No.	Public deals Em No.	Private deals Em No.	Total Total	Totals	
1 S.G. Warburg (1)	10	3,248	26	783	36	4,000
2 Schroders (4)	3	2,653	20	1,132	23	3,915
3 Baring Brothers (8)	6	518	17	2,242	23	2,856
4 Goldman Sachs (-)	3	1,831	10	1,362	13	3,214
5 Samuel Montagu (11)	9	903	15	1,886	24	2,798
6 Morgan Grenfell (2)	9	1,232	17	1,385	26	2,677
7 Kleinwort Benson (3)	8	819	12	1,753	18	2,572
8 Robert Fleming (19)	5	2,072	16	243	21	2,315
9 Lazard (7)	4	1,358	20	511	14	1,908
10 KPMG Corp Fin (8)	1	7	187	1,785	18	1,782

1993 earnings in brackets. Source: Acquisitions Monthly.

55.09bn, while the value of private deals almost doubled from \$5.72bn to \$11.4bn.

Fees earned by merchant banks and accountants advising on these transaction also rose – up from \$100m to \$120m, although still far behind 1993's record \$200m earnings.

Among the banks, S.G. War-

burg emerged as the leading financial adviser for the second successive year, playing a role in deals worth more than \$4bn.

Schroders was ranked second and after advising on 28 deals worth \$3.82bn, and Baring Brothers rose from eighth place last year to third in 1994.

Conditions for a new executive share option scheme, which will be voted on by shareholders at the annual meeting on February 9.

Mr Prosser's pension contribution increased from £10,000 to £14,000.

The salary increase made Mr Prosser Bass's highest-paid director. The man who beat him last year was believed to be Mr Bryan Langton, chairman of the Holiday Inn subsidiary, who earned £531,000.

Bass has set out performance

conditions for a new executive share option scheme, which will be voted on by shareholders at the annual meeting on February 9.

The first options will not be exercisable unless group earnings increase by at least 3.03 percentage points above retail price inflation.

This is Bass's second reform in corporate governance this year, after moving its directors from three to two-year rolling contracts in October.

year in both pre-tax profits (6.7 per cent) and earnings per share (10.5 per cent), compared with targets set by the remuneration committee.

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Bass has set out performance

increases than in the previous

## Stanhope takes advice on trading

By Ralph Atkins in London and John Riddick in Paris

Stanhope, the property developer headed by Mr Stuart Lipton, was last night still in limbo – a week after its banks decided not to extend its credit facilities.

The group is understood to have taken legal advice about continuing trading, pending the outcome of negotiations with its bankers, advisers and other companies which have proposed rescue schemes.

Stanhope appears to have benefited from the near-shutdown of normal business over the holiday period, which will have reduced outgoings. Some liabilities might also be met from funds held by the company.

The 16 banks, led by Barclays, appear to have taken a sympathetic stance – at least temporarily.

"We are trying to be accomodating while there is a possibility of a solution," said a source closed to the talks.

Rescue proposals from British Land, the property investment company, and from PostTel, the post and tele communications pension fund, were rejected last week by the banks. However, talks with British Land have since reopened.

Separately it emerged that Crédit Lyonnais, France's loss-making state-owned bank, has held talks with possible buyers – including British Land – about the sale of its 20 per cent stake in Forum des Halles, the landmark shopping complex in the centre of Paris.

Union des Assurances de Paris, France's largest insurer which holds 12.5 per cent of Forum des Halles, is considered another possible candidate for the stake.

Crédit Lyonnais is in the midst of an aggressive asset sales programme, aimed at strengthening its balance sheet and curbing losses which totalled FF10.5bn (£210m) in 1993 and FF14.5bn for the first half of this year. Industry observers estimated that its 20 per cent stake in Forum des Halles is valued in excess of FF200m.

Speculation has been heightened by some previous activity in the sector, albeit on a small scale. While the 10 big water and sewerage groups have not changed since privatisation, consolidation has thinned the ranks of the smaller "water only" companies to just 21, from 29 in 1988. The smaller companies have been attractive targets, mainly because they lack the vast spending commitments linked to sewage treatment of their larger brethren.

The Trafalgar-Northern battle has shifted the takeover spotlight from the minnows to the bigger fish. "I wouldn't be surprised. I'm positively expecting takeover activity," says Mr Andrew Sturz, water industry analyst at Daiwa Research Institute in London.

Many analysts are already trying to pick the bidders and targets. Northumbrian and Wessex top most lists.

Northumbrian's small size

## Tide of interest faces many locks

Haig Simonian explains why takeover talk in the water industry is tinged with caution

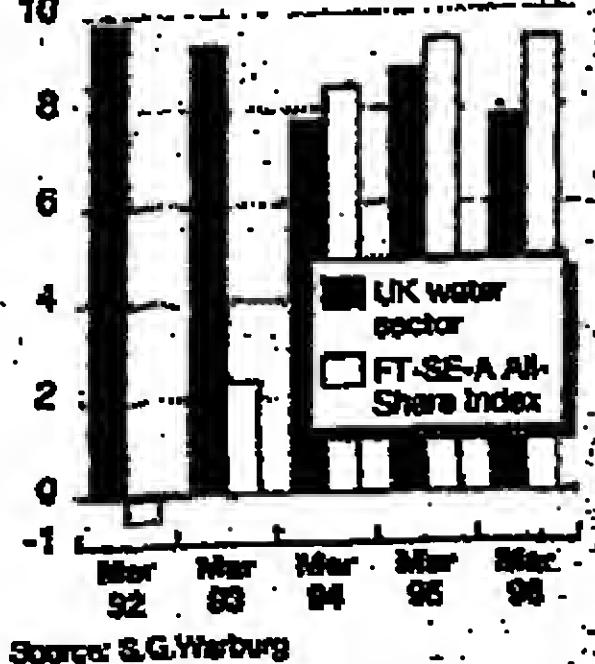
### Water sector

Relative earnings growth % pre-exceptional earnings



### Relative dividend growth

% net dividend increase



makes it relatively affordable in spite of its high share price. It also stands out for strong earnings, according to Mr Nigel Hawkins, the industry analyst at Hoare Govett. The company's decision to raise its interim dividend by 16 per cent may have been a pre-emptive move to butter up shareholders

and fend off possible predators. Wessex could be either a target or a bidder. Its deal to sell up to 20 per cent of its shares to Waste Management International, the UK arm of America's WMX, the world's leading waste group, has raised questions over its long-term independence.

Separately it emerged that Crédit Lyonnais, France's loss-making state-owned bank, has held talks with possible buyers – including British Land – about the sale of its 20 per cent stake in Forum des Halles, the landmark shopping complex in the centre of Paris.

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Wessex could be either a target or a bidder. Its deal to sell up to 20 per cent of its shares to Waste Management International, the UK arm of America's WMX, the world's leading waste group, has raised questions over its long-term independence.

That leaves takeovers from outside bidders. The disincentives are strong, however. The bidders would not be able to achieve the immediate cost savings of combining utility businesses, and yet would still have to fund the costly capital spending programme.

Even deals between water and electricity companies could be difficult to justify.

There is no strong reason for either grouping to expand into another heavily regulated area.

"The uncertainty in the water sector means it isn't attractive for outsiders," says Mr Dale.

Regulatory regimes also differ. Mr Ian Batt, the water regulator, has kept the industry on a much tighter financial leash than Professor Stephen Littlechild, his opposite num-

ber in electricity. Many analysts believe the recs' fat profits derive largely from a relatively generous regulatory environment. Life in the water sector has been tougher.

A merger or takeover would also face a virtually certain referral to the Monopolies and Mergers Commission.

Mr Batt has given few clues of his views on deals. However, he has implied he would expect any deal to offer substantial advantages to customers.

Analysts think he would oblige any bidder from within the water industry to pass on most of the expected cost savings to the consumer. That would strongly discourage intra-industry deals and, in any case, the companies are so physically bound to their regions that operational savings would be limited.

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There is no strong reason for either grouping to expand into another heavily regulated area.

"The uncertainty in the water sector means it isn't attractive for outsiders," says Mr Dale.

So while investors may be preparing for further shocks among the recs, speculation among the water companies may turn out to be a damp squib.

### PAN-HOLDING

Société Anonyme - Luxembourg  
R.C. Luxembourg B 7.023

The Extraordinary General Meeting of Shareholders held on December 28, 1994 has adopted all the resolutions proposed on its agenda and has, among others, changed the status of the Company into that of an investment company subject to the Law of March 30, 1988.

It has reduced the par value of each share from US\$200 to US\$100, split the shares in the proportion of two new shares for one existing share and has further reduced the nominal value of each share from US\$100 to US\$50 per share. The issued share capital amounts now to US\$1,000,000 shares of a nominal value of US\$50 each. The authorised share capital amounts to US\$ 70,000,000 represented by 1,400,000 shares of a nominal value of US\$50 each per share. Following the resolutions adopted by the Meeting, the Extraordinary Reserve account amounts to US\$169,346,209.

Shareholders are informed that the old bearer shares shall be stamped and that one additional share shall be delivered against presentation of coupon Nr 60 affixed to the bearer shares.

An inscription in the share register shall record the decisions taken by the Extraordinary General Meeting.

The Company shall reprint in the course of the first quarter 1995 all the share certificates. Shareholders shall be duly informed when the old certificates will be exchanged against new share certificates.

Shareholders have the option:

- to present their bearer share certificates, with the coupon Nr 60 affixed thereto, from January 12, 1995 onwards, for stamping and delivery of one additional share;

- to receive two new certificates for one old certificate, with the coupon Nr 60 affixed thereto, at the time of the exchange of the certificates contemplated to take place during the first quarter 1995;

Russia  
under  
refin

## MARKET REPORT

## International rate pressures unsettle UK equities

By Steve Thompson

The surprise increase in base rates by a number of leading French banks and widespread disappointment across global markets with the outcome of the latest auction of German bonds provided the real trigger for a global slide in equity markets. London's equity market could not ignore such moves and came under pressure from the outset, eventually closing sharply lower after a session of thin and quiet trading.

The French lift was preceded by a surprising retreat from Wall Street overnight and a stuttering performance by US equities at the US opening yesterday. Adding to Wall Street's discomfiture was slightly worrying economic data and renewed concerns over Mexico.

"It looks very much now that the cycle of lower European interest has finally turned," said an econo-

mist at one leading European bank in London. "The chances of another reduction in German interest rates have virtually disappeared and the markets will have to cope with a period of stable German interest rates which will be gently nudged upwards in the second half of the year."

Dealers said there was always an element of uncertainty in gilt/bond markets yesterday, and London had picked up the scent of trouble from the outset. UK gilts opened easier and moved progressively lower.

One marketmaker pointed to the threat to French interests by terrorists from Algeria and the increasingly disturbing news from Russia. With the German bond auction said to have been badly received, there was only one way for international bonds to go.

"It looks very much now that the cycle of lower European interest has finally turned," said an econo-

mist at one leading European bank in London. "The chances of another reduction in German interest rates have virtually disappeared and the markets will have to cope with a period of stable German interest rates which will be gently nudged upwards in the second half of the year."

London opened on a quiet note but down 144 at 3,061.6 in the wake of the poor performance by Wall Street overnight and the opening falls in gilt.

A flurry of sizeable trades put through the market during the early part of the session caused some consternation around the City's dealing desks but these were eventually unveiled as "bed and breakfast" or tax-related deals and had little impact of prices.

Thereafter, there was little insti-

tutional trading until mid-morning, when gilts turned off again, along with German bunds, triggering small pockets of selling pressure in equity leaders.

The FTSE 100 began to weaken in the run up to Wall Street's opening when it was down over 31 points. However, the US market came in level and began to edge higher, shrugging off news of slightly higher than expected lead indicators for November from the US.

London staged a minor rally, reducing the fall in the FTSE 100 to 22 points, but then fell as the market picked up the scent of a shift in French base rates.

Some marketmakers, although rattled by the sudden and unexpected move by the French banks, said it would be wrong to judge the

mood of European markets on such a day. "Dealing desks in London were only half-manned and no-one wanted to trade," he said, adding that most big securities houses had already positioned themselves with level books going into the New Year.

The expected surge of activity linked to over-the-counter option trades, specially tailored to client needs, failed to materialise. But many in the market are looking for a sustained burst of activity around the close of trading this afternoon when derivatives traders are expected to try to influence some of the FTSE 100's best and worst performers as the year comes to an end.

Turnover, given a strong boost by "last hour bid data", accounting for turnover of some 74m shares, reached 428m shares.

## EQUITY FUTURES AND OPTIONS TRADING

It was a poor day in the derivatives market as a lack of buying, combined with dull sentiment after an overnight retreat on Wall Street.

In futures, signs that Wednesday's rally had ran out

**■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)**

Open Set price Change High Low Est. vol Open Int.

Mar 3017.50 -0.2 3008.00 3012.00 3076.50 8088 55642

Apr 3030.00 -4.0 3012.00 3076.50 0 2925

Sep 3142.00 -3.0 3142.00 3142.00 500 0

**■ FTSE Mid 250 INDEX FUTURES (LIFFE) £10 per full index point**

Mar - 3495.0 - - -

All open interest figures are for previous day. ↑ Exact volume shown.

**■ FTSE 100 INDEX OPTION (LIFFE) (£305) £10 per full index point**

2000 2005 2010 2015 2020 2025 2030 2035

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Nov 1872.00 1877.25 1882.25 1887.25 1892.25 1897.25 1897.25 1902.25

Dec 1882.00 1887.25 1892.25 1897.25 1902.25 1907.25 1907.25 1912.25

Jan 1892.00 1897.25 1902.25 1907.25 1912.25 1917.25 1917.25 1922.25

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## COMMODITIES AND AGRICULTURE

## THE MARKETS IN 1994

## Copper, aluminium and coffee shine in an eventful year

For leading world commodity markets 1994 has been a year of mixed fortunes; and for many commodity analysts a period to look back on with some embarrassment.

Base metals prices, which were generally forecast to languish, remained very strong throughout and the gold price, for which strong gains were predicted, languished. Coffee's expected modest rise was turned out to be a major bull run; while cocoa failed to build as expected on its strength in late 1993.

At this time last year the prices of metals traded on the London Metal Exchange were struggling to move away from historic real-term lows. Most analysts were suggesting that the recovery would be long and arduous. Nevertheless, they said, most prices would be higher in 1994 – the exception being copper, which needed to fall a little more before moving back up. How wrong most analysts were.

Base metals prices have boomed. Copper and aluminium, the most heavily-traded metals, are 70 per cent above the levels ruling at the end of 1993 while even zinc, which most analysts agree has the worst near-term prospects of the LME metals, has risen by 16 per cent.

Nearly everyone failed to predict the impact of two new elements in the metals markets this year: the activities of the investment funds and banks.

The funds are estimated to have put US\$16bn (£10bn) into metals so far this year. Meanwhile, the banks probably control 75 per cent of the LME stocks – traders say that as much as 85 per cent of the exchange's aluminium stock is controlled by four or five banks.

Consumers are complaining and producers, many of whom were almost suicidal a year ago, do not wholeheartedly welcome the new element in the metals markets either.

High prices encourage substitution of other materials for

metals and volatile prices frightened off potential metals users. Also, some producers are using the futures markets to lock in artificially high prices either to fund further development or to bolster flagging operations – moves that might blunt future supply.

Nevertheless, investment fund managers say they had good reasons for buying metals: clients wanted to reduce

\$400 a troy ounce and some of the same investors who had driven up the gold price in the spring of 1993 attempted to push silver through \$6 an ounce. This attempt was unsuccessful, as was gold's attack on \$400.

The World Gold Council points out that rising interest rates are encouraging more gold mining companies to hedge their future production

(platinum's sister metal) to double in the past year. The precious metal is needed for the multi-layer ceramic capacitors used in these telephones, as well as in a wide variety of other electronic equipment such as personal computers and the new wide-screen televisions.

Few coffee traders would have thought at the end of 1993 that a year later they would

level. But traders saw that as a "bubble", waiting to burst. They were concerned about the growing influence in the rise of the US investment funds, which might pull out of the market even more quickly than they had entered it.

There were signs that that might be happening later in May when a surge to within \$2 of the \$2,500-a-tonne mark for the second position was fol-

lowed by a \$400-plus plunge in the space of two days.

In

the

event prices stabilised, and by mid-June any thoughts of a speculative sell-off had been dismissed following news that growing areas in Brazil, the world's biggest producer by far, had suffered a damaging frost that had severely hit flowering for the 1995-96 crop. That pushed the second position price above \$3,000 a tonne, and four weeks later it topped \$4,000 to reach the highest level for eight and a half years after a second frost struck in Brazil.

After another retreat prices

were driven to fresh 8½-year

highs in September by more

Brazilian weather worries –

this time drought. But that

proved to be the peak. Since

the rains came in mid-October

the overall trend has been

downwards and the second

position closed yesterday at

\$2,576 a tonne, still 140 per cent

up on the year but \$1,260 off

the peak.

With weather worries off the

agenda for the time being ana-

lysts have been taking a more

sober view of crop prospects

and turning their minds

increasingly to the demand

side of the equation. At today's

prices most see consumption

falling significantly next year,

compensating to some extent

for the reduction in Brazilian

supplies.

The LCE cocoa market put in

a much more pedestrian perfor-

mance this year. The current

three-year sequence of world

supply/demand deficits is gen-

erally expected to continue for

another two years at least, so

stocks should continue to fall.

But that has already been

taken account of at present

market levels, analysts say,

and it will take fresh bullish

developments to lift prices

above the 5½-year highs seen

briefly in July. At \$1,116 a

tonne the July peak for the sec-

ond futures position was only

250 above the high seen in

December 1993. And since then

the price has retreated by

about \$160. It closed yesterday

at \$2,034 a tonne, up just \$55

over the year.

Producers talk of a withholding

scheme similar to that

operated by coffee producers

not seen to have worried

buyers overmuch. The pro-

jects for renewed price gains

in the new year could depend

on a return of the investment

fund money that was switched

into the coffee market in the

first quarter of this year.

London white sugar futures

surged to four-year highs late

in 1994 as increasing supply

tightness was felt in the mar-

ket. In late trading yesterday

the second position stood at

\$405.50 a tonne, up \$118 over

but down \$2 from the peak

reached early this month.

Broker C. Czarnikow said

recently that sugar prices were

likely to continue in a "consol-

idation phase" for a while

because big importers such as

China and Russia would proba-

bly stay out of the market until

well into next year. In its

December Sugar Review Czarni-

kow said: "Although

recent strength may well

emerge during the course of

## Russians undecided on smelter refit plan

Management at Russia's Krasnoyarsk aluminium smelter has not yet decided which of two rival modernisation proposals from foreign companies it will accept, reports Reuters from Moscow.

The Siberian plant's deputy director, Mikhail Vasilev, said this week, however, that proposals by Alcoa (Aluminum Company of America) are less expensive than those of France's Pechiney.

"According to our experts, the French proposal is about twice as expensive as Alcoa's," he said.

Earlier this year, Pechiney submitted to the Russian state metallurgy committee a preliminary reconstruction plan for Krasnoyarsk.

Pechiney official rejected the cost comparison. "The two projects are completely different," he said.

Much more ambitious than Alcoa's proposals, Pechiney's \$1.2bn-\$1.3bn plan calls for the complete reconstruction of the plant in three stages with modern, less polluting technology.

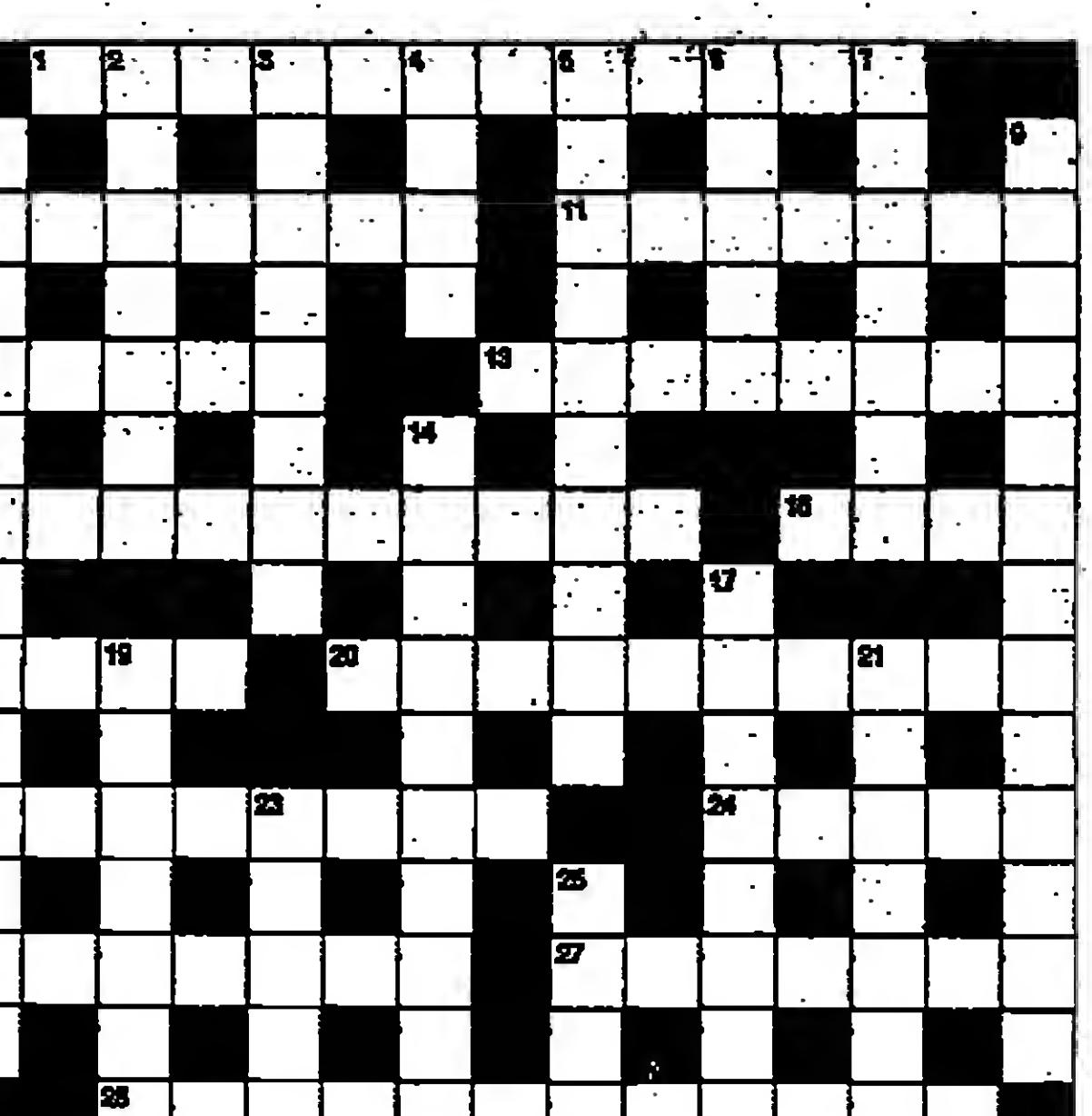
Mr Vasilev said Alcoa, one of the world's biggest aluminium producers, was considering acquiring a 20 per cent stake in the plant. But the decision to sell these shares – held by the state – would not be taken soon.

The state property committee and federal property fund last week ordered a temporary halt to selling shares in aluminium plants or registering new owners pending an investigation into share ownership and registration.

This decision came shortly after Transworld, a British firm specialising in metal trading, said its 20 per cent stake in Krasnoyarsk had been crossed off the shareholders' register. But Mr Vasilev said there was no link between negotiations over Alcoa's modernisation plans and the share issue.

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